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Tax Benefits for Older Americans

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For use in preparing
1980 Returns

Introduction

In general, the federal income tax laws apply equally to all taxpayers regardless of age. However, certain provisions give special treatment to older Americans.

This publication provides basic tax information of special interest to older Americans. At the end of this publication is a *Sample Return.* This sample takes you through the tax return, explaining such items as the sale of a home, credit for the elderly, and pension and annuity income. It also includes filled-in forms and schedules showing how these and other items are reported.

While some items are discussed in this publication because of their interest to older Americans, they apply to taxpayers generally and are explained in detail in other taxpayer information publications of the Internal Revenue Service. References to these publications are included for the convenience of readers who need more information on specific subjects. A list of publications and information on how to get them is given at the end of this publication. You may want to get those you need.

If you want, the Internal Revenue Service will figure your tax for you. It will be figured the way that will let you pay the lowest tax. Also, the Internal Revenue Service will figure the Credit for the Elderly and the Earned Income Credit. See *IRS Will Figure Your Tax for You,* later in this publication.

If you need more help in preparing your return, or if you have any questions, please call or visit your Internal Revenue office.

Unresolved Problems

If a problem develops with the Internal Revenue Service after you file your federal tax return, use the normal assistance activities to get it resolved. If this attempt fails, the Internal Revenue Service Problem Resolution Office can help cut the red tape and get you an answer to your problem. You can reach the Problem Resolution Office by calling the toll-free number for your area listed in your phone book under *U.S. Government, Internal Revenue Service.* While this office is not a substitute for normal Internal Revenue Service channels and cannot change technical decisions, it can help you clear up misunderstandings which have resulted from previous contacts with Internal Revenue Service.

Specific Tax Benefits for Older Americans

Four specific tax benefits are available to older Americans. Two of these benefits apply to all taxpayers age 65 or older. You are considered 65 on the

day before your 65th birthday. The other two are available only to those who qualify.

All taxpayers 65 or older benefit from:

1) A special gross income requirement for filing a federal income tax return, and
2) An additional exemption for age.

These benefits are available whether you file Form 1040 or Form 1040A.

Taxpayers who qualify and who meet the age requirements may benefit from the:

1) Credit for the Elderly, or
2) Exclusion of gain on the sale of their home.

These benefits are available only if you file Form 1040.

Special Gross Income Requirement for Filing

If you are a U.S. citizen or resident age 65 or older and had gross income for the tax year of at least the amount shown under the category that applies to you, you must file a federal income tax return even if you owe no tax.

Single persons—$4,300 ($3,300 for taxpayers under 65).

Married persons—eligible to file a joint return and living together at the close of the tax year—

$6,400 if one spouse is 65 or older,

$7,400 if both are 65 or older ($5,400 if both are under 65).

If you have $1,000 or more gross income, you must file a federal income tax return regardless of your age if:

1) You are married filing a separate return, or
2) You and your spouse did not share the same household at the end of the year.

If you are self-employed and had net earnings of $400 or more from this work during the tax year, you must file a federal income tax return and pay self-employment tax.

You are a self-employed person if you carry on a trade or business as a sole proprietor, are a member of a partnership, an independent contractor, or otherwise in business for yourself. It includes certain part-time work that you do at home or in addition to your regular job.

This rule applies regardless of your age; whether or not you are receiving social security benefits; and even if you are not otherwise required to file a federal income tax return.

Example. You are 67 years old and receive social security benefits. You also operate a small fix-it shop. You took in $1,000 during the year from repair work. After deducting such business expenses as light and heat, your net earnings were $800. Since your net earnings from self-employment were more than $400, you are required to file an income tax return and pay self-employment tax.

The self-employment tax is discussed in detail in Publication 533, *Self-Employment Tax.*

If you are the survivor, executor, administrator, or legal representative of a person who died during the year, you may be required to file a final return for the decedent. See Publication 559, *Tax Information for Survivors, Executors, and Administrators.*

Caution: The last year you can file a joint return is the year your spouse died. After that you must file as a qualifying widow or widower, a head of household, or single. Your gross income requirement for filing changes when your filing status changes. Even if you have not filed a return for several years, you may have to file in 1980.

Example. You and your spouse both turned age 65 in 1977. You have no dependents. Your gross income in 1977 and 1978 was $5,000. Because this was less than the filing requirement for married couples filing a joint return ($6,200), you and your spouse did not file a return. Your gross income in 1979 and 1980 was also $5,000. Your spouse died in 1979, but since you would have been able to file a joint return for 1979, and your gross income is less than the filing requirement for married couples filing a joint return ($7,400), you did not file a return. But, in 1980, you must file a return because your gross income ($5,000) is more than the filing requirement for a single person ($4,300).

If income tax was withheld from your pay, you should file a return even if you are not required to do so. By filing a return and claiming your personal exemptions, you can get a refund of the tax withheld. If your gross income was ***less than $1,000,*** you may file a return for a refund of any tax withheld even if you are claimed as a dependent by another taxpayer.

Gross Income. Your gross income includes all income you receive in the form of money, property, and services that is not exempt from tax. Social security benefits you receive under the federal social security program are not taxable.

If you are employed, gross income includes your total salary or wages; if you are a landlord, it includes the total rent you receive before you deduct any rental expenses; and if you are self-employed, it includes the total gross profit (gross receipts minus cost of goods sold) from your trade or business.

Example. You are single, over age 65, and your only income comes from rents. During your tax year

you receive gross rents of $4,500, but after deducting such items as repairs, utilities, and depreciation, your net rental income is only $400. Because your gross income was $4,300 or more, you must file a return.

For more information on what income is taxable, see *Taxable and Nontaxable Income*, later in this publication.

Which Form to Use

The two most commonly used forms for individual federal income tax returns are Form 1040A and Form 1040. Most taxpayers may choose either form.

If you have not received a tax return package in the mail, or if you need other forms, you may order them from the Internal Revenue Service Forms Distribution Center for your state. Addresses for the Forms Distribution Centers are shown near the end of your Form 1040 and Form 1040A Instructions. Or, you may call the Forms/Tax Information number listed in your phone book under *United States Government, Internal Revenue Service*.

Form 1040A

You will find it easier to fill out Form 1040A if you qualify.

You may use Form 1040A if all your income was from wages, salaries, tips, unemployment compensation, and no more than $400 in interest or $400 in dividends.

You may not be able to use Form 1040A because of the amount or kind of income you receive, your filing status, the number of exemptions you claim, or because you file forms or schedules or pay other taxes that can be reported only on Form 1040. Or, you may want to claim itemized deductions, adjustments to income, or credits that cannot be reported on Form 1040A. Check the following list to see if you must use Form 1040 instead of Form 1040A.

You may not use Form 1040A if:

1) Your total income is more than $20,000 ($40,000 if you are married filing a joint return), or
2) You received more than $400 in interest or $400 in dividends. ***Exception:*** If you received more than $400 in interest or $400 in dividends, you may use Form 1040A if you are filing only to get a refund of the earned income credit, or
3) You must complete Part III of Schedule B (Form 1040) because:
   a) At any time during the year you had an interest in, or signature or other authority over, a bank, securities, or other financial account in a foreign country, or
   b) You were a grantor of, or transferor to, a foreign trust that existed during 1980, or
4) You had income other than wages, salaries, tips, unemployment compensation, interest, or dividends, such as pension or annuity income, gain from the sale of your home or other property, bartering income, alimony income, or self-employment income (including farm income), or
5) You file a separate return and your spouse itemizes deductions. ***Exception:*** You may use Form 1040A if you are not considered married for tax purposes, see *Certain married persons living apart*, under *Itemized Deductions*, later, or
6) You were a qualifying widow or widower with a dependent child, or
7) You filed Form 1040-ES, *Declaration of Estimated Tax for Individuals*, for 1980, or
8) You want to apply any part of your 1980 refund to estimated tax for 1981, or
9) You file Schedule G, *Income Averaging*, or
10) You file Form 2119, *Sale or Exchange of Principal Residence*, or
11) You file Form 2210, *Underpayment of Estimated Income Tax by Individuals*, or
12) You file Form 2555, *Deduction from, or Exclusion of, Income Earned Abroad*, or
13) You file Form 4563, *Exclusion of Income from Sources in United States Possessions*, or
14) You file Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, or*
15) You file Schedule SE, *Computation of Social Security Self-Employment Tax*, or
16) You must pay a tax on an individual retirement arrangement (IRA), or
17) You itemize your deductions, or
18) You claim adjustments to gross income for moving expenses, employee business expenses, payments to an individual retirement arrangement (IRA), an interest penalty due to early withdrawal of savings, alimony paid, or claim a disability income exclusion, or
19) You claim any credits against your tax, such as the residential energy credit, the credit for the elderly, or the credit for child and disabled dependent care expenses. ***Exception:*** You may use Form 1040A if the only credits you take are the credit for political contributions or the earned income credit.

Form 1040

You may have received Form 1040A in the mail because of the return you filed last year. But your situation may have changed this year and it may be to your advantage to file Form 1040 instead of Form 1040A. You may pay less tax by filing Form 1040 be-

cause you can take itemized deductions, adjustments to income, and some credits that you cannot take on Form 1040A.

If you file Form 1040, attach the necessary schedules or forms, such as:

Schedule A (Form 1040) to show your ***itemized deductions;***

Schedule B (Form 1040) to report ***interest and dividends,*** including capital gain and nontaxable distributions, if either is more than $400 or to answer the ***foreign accounts*** and ***foreign trusts questions;***

Schedule C (Form 1040) to report profit or loss from your ***business or profession;***

Schedule D (Form 1040) to report ***capital gains and losses;***

Schedule E (Form 1040) to report income from ***pensions, annuities, rents, royalties, partnerships, estates, trusts, and small business corporations;***

Schedule F (Form 1040) to report ***farm income and expenses;***

Schedule G (Form 1040) if you choose ***income averaging*** to figure your tax;

Schedules R & RP (Form 1040) if you claim the ***credit for the elderly;***

Schedule SE (Form 1040) to figure ***self-employment tax;***

Schedule TC (Form 1040) to ***figure your tax*** if you do not use the tax tables or to ***figure your tax table income*** if you must itemize your deductions and your zero bracket amount is more than your itemized deductions.

Foreign financial accounts and foreign trusts. You must fill in Part III of Schedule B if you completed Part I or Part II of Schedule B, or if you had a foreign account, or were the grantor of, or transferor to, a foreign trust.

Question A. You should check the *Yes* box in Question A if either (1) or (2) below applies to you.

1) At any time during the year you had an interest in, or signature or other authority over, a bank account, securities account, or other financial account in a foreign country. ***Exception:*** You should check *No* if any of the following apply to you.
   a) The combined value of the accounts were $1,000 or less during the whole year, or
   b) The accounts were with a U.S. military banking facility operated by a U.S. financial institution, or
   c) You are an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account is in your employer's name; ***and*** you do not have a personal financial interest in the account, or
   d) You are an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than $1 million and 500 or more shareholders of record; the account is in your employer's name; you do not have a personal financial interest in the account; and the chief financial officer of the corporation has given you written notice that the corporation has filed a current report that includes the account.
2) You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

Get Form 90-22.1 to see if you are considered to have an interest in, or signature or other authority over, a bank account, securities account, or other financial account in a foreign country.

If you checked *Yes* for Question A, file Form 90-22.1 by June 30, 1981, with the Department of the Treasury at the address shown on the form. Form 90-22.1 is not a tax return, so do not file it with the Internal Revenue Service.

You can get Form 90-22.1 from many Internal Revenue offices or by writing to the Internal Revenue Service Forms Distribution Center for your state. Addresses for the Forms Distribution Centers are shown on the inside back cover of your Form 1040 tax return package.

Question B. You should check the *Yes* box in Question B if you were a grantor of, or a transferor to, a foreign trust that existed during the tax year.

Address Label

After you have completed your return, peel your address label off the cover of your tax return package and place it in the address area of the Form 1040 or Form 1040A you send to the Internal Revenue Service. If you have someone prepare your return, give that person your label to use on it.

The coding on the label is used by the Internal Revenue Service in processing your return. The label helps correctly identify accounts, saves processing costs, and speeds up processing so that refunds can be issued sooner.

Correcting the label. Make necessary name and address changes on the label. If you have an apartment number that is not shown on the label, please write it in. If you and your spouse file a joint return and maintain separate homes, choose one address to enter on your Form 1040 or Form 1040A. If the label is for a joint return and the social security numbers are

not listed in the same order as the first names, show the numbers in the correct order. If your social security number is not correct, or if you changed your name, see the discussion later under *Social Security Number.*

If you did not receive a tax return package with a label, print or type your name, address, and social security number in the spaces provided on Form 1040 or Form 1040A.

Different last names. If you and your spouse file a joint return and have different last names, separate the names with ***and.*** For example, John Brown and Mary Smith.

Social Security Number

You must show your social security number on your return. If the number shown on the address label on the tax return package you received in the mail is wrong, mark through it and correct it on the label. If you did not receive a return with a label, write your number in the space provided.

If you are married, give the numbers for both yourself and your spouse, whether you file jointly or separately. If you are filing a joint return, list your social security numbers in the same order that you show your first names.

Changed name. If you changed your name for reasons such as marriage or divorce, you should notify your Social Security Administration office so that the name on your tax return is the same as the one the Social Security Administration has on its records. This may prevent delays in issuing your refund.

Presidential Election Campaign Fund

This fund was set up to help pay for presidential election campaigns. You may have $1 of your taxes go to this fund. All you have to do is place a check mark in the *Yes* box on your tax return, Form 1040 or Form 1040A.

On a joint return, you and your spouse may make your choices individually. For example:

1) Both of you may choose to have $1 each, for a total of $2, go into the fund, or
2) One may choose to have $1 go into the fund and the other may choose not to, or
3) Both of you may choose not to participate at all.

If you check the *Yes* box, it will not change the amount of tax you pay or the amount of refund you will receive.

For more information, see Publication 585, *Voluntary Tax Methods To Help Finance Political Campaigns.*

Revenue Sharing Residence Questions

The revenue sharing residence questions are near the top of your Form 1040 or Form 1040A. You may have to pay a penalty if you fail to give this information and do not show reasonable cause.

Answers to these residence questions will be given to the Bureau of the Census, and held by Census in strict confidence, to be used in developing current statistical estimates of population and per capita income. These estimates are used mainly to determine the distribution of general revenue sharing funds to state and local governments. Your answers to these questions are needed because your mailing address may not accurately identify the local jurisdiction(s) in which you live.

If you have difficulty answering the residence questions (for example, the correct name of your municipality or whether you live within its legal boundaries), you may be able to get help from your local government officials. If they cannot help you, please write to the Bureau of the Census, Residence Question, Washington, D.C. 20233, or call collect 812-288-3055 between the hours of 8 a.m. and 8 p.m. (EST) Monday through Friday.

Specific instructions for answering the four questions are included in the instructions for Form 1040 and Form 1040A.

Signature

You must sign and date your return. Both you and your spouse must sign and date a joint return, even if only one of you had income.

If you fill in your own return, the space under your signature should remain blank. If someone prepares your return and does not charge you, that person should not sign your return.

Generally, anyone who is paid to prepare your tax return must sign it and fill in the other blanks in the Paid Preparer's Use Only area of your return.

Aliens

Your status as an alien—resident, nonresident, or dual-status—determines how you file your return.

Resident aliens. If you are a resident alien for the whole year, you must file a tax return like a U.S. citizen. Use the forms discussed in this publication.

Nonresident aliens. If you are a nonresident alien for the whole year (unless you live in Puerto Rico for the whole year), do not use any of the forms discussed in this publication. You should get Publication 519, *U.S. Tax Guide for Aliens,* to find out if U.S. income tax laws apply to you and which forms you should file. You can get more information from the Office of

International Operations, Internal Revenue Service, Washington, D.C. 20225.

Certain nonresident aliens married to U.S. citizens or residents may choose to file a joint return and use the forms discussed in this publication. See Publication 519 for details.

Dual-status taxpayers. If you have been both a resident alien and a nonresident alien in one tax year, you are a dual-status taxpayer and have a dual-status tax year. Different rules apply for the part of the year you were a resident of the United States and the part of the year you were a nonresident. For information on dual-status taxpayers, you should get Publication 519, *U.S. Tax Guide for Aliens.*

If you were married to a person who was a U.S. citizen or resident on the last day of the tax year, you may be able to file a joint return with your spouse. For information, see Publication 519.

Your Filing Status

Your filing status determines which tax rate schedule or tax table you should use to arrive at your tax. For example, if you are single, you must use Tax Table A or Schedule X of the tax rate schedules.

All unmarried taxpayers who do not qualify for another filing status must file as "Single."

Divorced or legally separated. State law governs whether you are married, divorced, or legally separated.

Married Taxpayers

You and your spouse may file separate returns, or you may be eligible to file a joint return.

Joint return. On a joint return, you must include all the income, exemptions, and deductions of both you and your spouse. Both of you must sign the return.

You may file a joint return even if one of you had no income.

If you file a joint return, neither of you may later file a separate return for that same year.

Usually your tax will be lower if you file a joint return. However, if both you and your spouse had income during the tax year, you should figure your tax both ways to see which way gives you the lower tax.

Separate returns. If you and your spouse each had income, you may file separate returns instead of a joint return. If you file separately, you each should report only your own income, exemptions, and deductions on your individual return. You also may file a separate return if only one of you had income. If you file a separate return, you may claim an exemption for your spouse ***only*** if your spouse has no gross income and is not the dependent of another taxpayer.

If you and your spouse file separate returns you should use the method of claiming deductions that is most beneficial to both of you, even though it may be less advantageous to one of you. If one of you itemizes deductions, the other ***must*** itemize.

Qualifying Widow or Widower and Head of Household

The special provisions for a qualifying widow or widower and for a head of household allow you to figure your tax at rates lower than those used by other unmarried taxpayers. These provisions apply regardless of your age.

Qualifying widow or widower. If your spouse died during 1979 or 1978, and if you meet certain other requirements, you may figure your tax by using the rates for qualifying widows and widowers. Those rates are the same as for a married couple filing a joint return.

The year of death is the last year for which you may file jointly with, or claim an exemption for, your deceased spouse.

To qualify, you must meet ***all*** of the following tests:

1) You were entitled to file a joint return with your spouse for the year your spouse died. It does not matter whether you actually filed a joint return, and
2) You did not remarry before the end of 1980, and
3) You have a child, stepchild, or foster child who qualifies as your dependent, and
4) You paid more than half the cost of the upkeep of your home, which was the principal home of that child for the whole year, except for temporary absences.

If you qualify for this filing status, you must use Form 1040. Check the box on line 5 of your tax return. Show in the space given the year your spouse died.

Head of household. If you qualify as a head of household, you may figure your tax by using the special rate in Tax Table D or Tax Rate Schedule Z.

You may be eligible to file as a head of household if you were unmarried on the last day of the year. You must have paid more than half the cost of keeping up a home that was the principal home for the ***whole*** year for any of the following:

1) Your unmarried child, grandchild, stepchild, adopted child, or foster child. This child must have lived with you but does not have to be your dependent.

2) Your married child, grandchild, stepchild, adopted child, or foster child whom you may claim as a dependent. This child must have lived with you.
3) Your mother or father whom you may claim as your dependent. Your parent does not have to have lived with you.
4) Any other relative whom you may claim as a dependent. This relative must have lived with you.

You do not qualify as a head of household if you claim a relative in (2), (3), or (4) as a dependent under a multiple support agreement.

If you are a widow or widower, you cannot figure your tax as a head of household if you can use the tax rates for qualifying widows and widowers.

For more information on qualifying widow or widower and head of household, see Chapter 2 in Publication 17, *Your Federal Income Tax.*

Exemptions

You may take your own exemption of $1,000 even if you are the dependent of another taxpayer. If you are married, you may be able to take a $1,000 exemption for your spouse. In addition, you may take a $1,000 exemption for each person who qualifies as your dependent. If you use the tax tables to figure your tax, you do not have to take a separate deduction for the exemptions you claim. The $1,000 deduction has already been allowed in the tax tables. For more information on personal exemptions and the tests that must be met for a person to qualify as your dependent, see Publication 501, *Exemptions.*

You also may be able to take extra exemptions for yourself and your spouse for age and blindness.

Exemption for Age

If you are 65 or older on the last day of the tax year, you may take an extra $1,000 exemption for age. This is in addition to the regular personal exemption of $1,000. You are considered 65 on the day before your 65th birthday.

Spouse. If your spouse is 65 or older on the last day of the tax year and you file a joint return, you may take both a regular exemption of $1,000 and an age exemption of $1,000 for your spouse.

If your spouse had any gross income, as defined earlier, you may take your spouse's exemptions only if you file jointly.

Example. Both you and your spouse were 65 or older at the end of the year. You are filing a joint return. You may take a $1,000 personal exemption for both yourself and your spouse. Since both of you are 65 or older, you may take an extra $1,000 exemption for each of you. Your total exemptions for the year are $4,000.

If you file a separate return, you may take an exemption for your spouse only if your spouse had no gross income and was not a dependent of another taxpayer. If you take the exemption for your spouse, you also may take the age exemption if it applies. This is true even if your spouse is a nonresident alien.

If your spouse died during the year and had no gross income, you may take the exemptions on a joint return, or on your separate return if your spouse was not the dependent of another taxpayer.

The full amount of the exemptions is allowed for the year in which death occurred. The extra exemption for age is determined as of the date of death. If your spouse would have reached 65 during the year, but died before his or her birthday, you cannot take the extra exemption.

If you remarried during the year, you may not take exemptions for your deceased spouse.

If you are a surviving spouse without gross income, and you remarry, you may be claimed as an exemption on both the final separate return of your deceased spouse and the separate return of your new spouse whom you married in the same year. If you file a joint return with your new spouse, you may be claimed as an exemption only on that return.

If you were divorced or legally separated at the end of the year, you may not claim your former spouse's exemptions even if you contributed all of your former spouse's support.

Dependent. You may not claim an exemption for age for a dependent. You are allowed only one exemption of $1,000 for each person who qualifies as your dependent.

Example. You are 65 or older and a dependent of your son. Your son can take only one $1,000 exemption for you, even though you could claim a $2,000 exemption if you were filing a return.

Exemption for Blindness

In addition to the personal and age exemptions, you can take another $1,000 exemption for blindness if you were blind on the last day of the year. If you are totally blind, you must attach a statement to your return saying so.

You may claim the exemption for blindness if:
1) You cannot see better than 20/200 in the better eye with glasses, or
2) Your field of view is not more than 20 degrees.

If you are partly blind, you must submit with your return each year a statement from an eye doctor or registered optometrist that your vision is limited to at least this degree.

If your eye condition will never improve beyond the limits in (1) or (2), you may submit a certified opinion saying so from an examining eye physician. Attach this certification to your return only once. In later years you can just include a statement referring to it. You must keep a copy of the original certificate for your records.

If your vision can be corrected beyond these limits only by contact lenses that you can wear only briefly because of pain, infection, or ulcers, you may take the exemption for blindness.

Spouse. If the blindness exemption applies to your spouse, you may take an extra $1,000 exemption for your spouse on a joint return or on a separate return if your spouse had no income and was not the dependent of another taxpayer.

For more information, see *Spouse* under *Exemption for Age*.

Example. At the end of your tax year you were 65 years old. Your spouse was 65 and blind. On your joint tax return you may take a $1,000 exemption for yourself and a $1,000 exemption for your spouse. In addition, you may take an extra $1,000 exemption for your age, and two extra $1,000 exemptions for your spouse: one for age, and one for blindness. Your total exemptions amount to $5,000.

Dependent. You may never take the blindness exemption for a dependent.

Example. Both you and your spouse are 65 or older. Your sister, who is 70 and blind, lives with you and is your dependent. You may take exemptions of $2,000 for yourself and $2,000 for your spouse, but you may take only a $1,000 exemption for your dependent sister.

Taxable and Nontaxable Income

In general, you must include in your gross income all income you receive that is not exempt from tax. This may include compensation for services, interest, dividends, rents, royalties, income from partnerships, estate and trust income, gain from sales or exchanges of property, and business income of all kinds.

Under special provisions of the law, however, certain items are partially, or fully, exempt from tax. Some of these provisions are of special interest to older taxpayers.

The types of income that are received most frequently by older taxpayers are discussed in this section.

Nontaxable Income

The following items are exempt from tax (nontaxable). Generally you should not report them on your return.

Social security. Social security benefits you receive under the federal social security program are not taxable. Social security benefits you receive from foreign countries, however, are taxable unless they are specifically exempted by treaty. Thus, if you and your spouse receive nontaxable social security benefits of $1,500 during the year, and also have $8,000 of wages and interest, you need only report the $8,000 on your tax return.

Railroad retirement benefits. Basic railroad retirement benefits are not taxable. However, a supplemental annuity you receive under the Railroad Retirement Act is taxable.

Railroad retirement lump-sum payments, commonly known as the insurance lump-sum payment and the residual payment, are not taxable.

Public assistance. Benefit payments from a public welfare fund, such as payments you receive because of blindness, are not taxable.

Payments from a state fund for victims of crime, if they are welfare payments, are not taxable to the victim. Medical expenses that are reimbursed by such a fund are not deductible.

If a state makes payments to its citizens who meet certain age and residency tests, and the payments are not based on need, the payments are not welfare benefits. They are taxable to the recipients.

Mortgage assistance payments under section 235 of the National Housing Act are not taxable.

Interest paid for the homeowner under the mortgage assistance program is not deductible.

Payments to reduce cost of winter energy consumption. Payments by a state directly or indirectly to qualified people to reduce their cost of winter energy are not taxable.

Nutrition Program for the Elderly. Food benefits you receive under the Nutrition Program for the Elderly are not taxable. If you provide services to the program, such as preparing and serving free meals, the cash pay you receive is included in your income, regardless of whether you also are eligible for food benefits.

Sickness or injury benefits. Most payments you receive for illness or injury are nontaxable. These include:

Workmen's compensation you receive (or your beneficiaries receive for you) for sickness or injury. If you turn over your workmen's compensation payments to your employer, and all or part of your regular salary continues to be paid, the excess of the salary payments over the amount of workmen's compensation is taxable income. If you return to work after qualifying for workmen's compensation, payments

you continue to receive while assigned to light duties are taxable,

Black lung benefit payments,

Damages you receive for injury or illness,

Benefits you receive under an accident or health insurance policy attributable to premiums you paid,

Disability benefits you receive for loss of income or earning capacity as a result of injuries under a "no-fault" car insurance policy,

Compensation you receive for permanent loss, or loss of use, of a part or function of your body, or for permanent disfigurement. This compensation must be figured only with regard to the injury and not to your period of absence from work. These benefits are not taxed even though an employer pays for the accident and health plan that provides these benefits,

Federal Employees' Compensation Act payments you receive for personal injuries or sickness, including payments to beneficiaries in case of death. However, you are taxed on amounts that you receive under this act as continuation of pay for up to 45 days while a claim is being decided. Also, pay for sick leave while a claim is being processed is taxable.

Gifts and inheritances. Gifts, bequests, or inheritances you receive are not income and are not taxable. But, if the property you receive this way later produces income such as interest, dividends, or rentals, that income is taxable to you. If property is given to a trust and the income from it is paid, credited, or distributed to you, that also is income to you and is taxable.

Veterans' benefits. Benefits paid to veterans and their families under any law administered by the Veterans Administration are not taxable. For example, disability compensation and pension payments for disabilities are exempt from tax.

Veterans' insurance proceeds and dividends are not taxable either to the veterans or to their beneficiaries. This is also true of the proceeds of veterans' endowment policies paid before death.

Interest on dividends you leave on deposit with the Veterans Administration is taxable. The amount of this interest is shown on the statement the Veterans Administration gives to you. If you decide to use accumulated dividends to buy additional paid-up National Service Life Insurance, neither the dividends nor the paid-up insurance is taxable.

Taxable Income

The following items are taxable. Generally you should report them on your return.

Compensation for Service

Wages, salaries, fees, commissions, bonuses, tips, and any other payment you receive for your services ordinarily must be included in your gross income.

You need not receive the compensation in cash for it to be taxable. Payments you receive in the form of goods or services must be included in your gross income at their fair market value.

If you receive amounts for supportive services or are reimbursed for out-of-pocket expenses under any of the following volunteer programs, you do not include these amounts in your gross income:

Retired Senior Volunteer Program (RSVP)

Foster Grandparent Program

Older American Community Service Programs, including Senior Health Aides and Senior Companions

Senior Corps of Retired Executives (SCORE)

Active Corps of Executives (ACE)

For more information on what income is taxable, see Publication 525, *Taxable and Nontaxable Income.*

Interest

Most interest income you receive is taxable. You report it on line 9, Form 1040, or line 8, Form 1040A. If you have more than $400 in taxable interest, you must file Form 1040 and list the amounts and sources on Schedule B.

Taxable interest includes:

Interest on bank accounts, loans and notes, bonds (except state and local government), U.S. Savings Bonds and obligations issued by any agency or instrumentality of the United States,

Interest on insurance dividends left with an insurance company, and

Interest on Building and Loan, Savings and Loan, and Credit Union accounts (even if the payments are designated as dividends).

Tax-exempt interest. Interest on certain notes and bonds of state and local governments, the District of Columbia, and possessions of the United States is not taxed.

Interest and dividend exclusion. For years beginning after 1980, you will be able to exclude (subtract) up to $200 ($400 on a joint return) of certain interest and dividend income that you receive during the year. However, for your 1980 tax year, you are only allowed to exclude up to $100 of the total qualifying dividends that you received. If you file a joint return for 1980 and both you and your spouse received qualifying dividends, you may exclude up to $200. See *Dividend exclusion,* under *Dividends,* following.

A complete discussion of interest income is in Publication 550, *Investment Income and Expenses*.

Dividends

Dividends on stock you own ordinarily are taxable income.

Ordinary dividends (taxable dividends) are the most common type of distribution from a corporation. They are paid out of the earnings and profits of a corporation and are ordinary income to you. You can assume that any dividend you receive, whether on common or preferred stock, is an ordinary dividend unless the paying corporation tells you otherwise.

Dividend exclusion. You may exclude (subtract) up to $100 of the total qualifying dividends you receive.

Married taxpayers. If both you and your spouse receive qualifying dividends, each of you may subtract up to $100 whether you file a joint return or separate returns. However, neither of you can use any part of the $100 exclusion not used by the other if the stock is owned separately. For example, if you receive $120 and your spouse receives $80 in qualifying dividends, you may subtract $100 and your spouse may subtract $80 or a total of $180 on a joint return. Your spouse may not use the $20 that you could not use.

Where to report. You report dividend income on line 10a, Form 1040, or line 9a, Form 1040A. You enter your exclusion on line 10b, Form 1040, or line 9b, Form 1040A. If you have more than $400 in taxable dividends, you must file Form 1040 and list the amounts and sources on Schedule B. You may not use Form 1040A unless all your distributions are ordinary dividends and you are filing ony to get a refund of the earned income credit.

For more information on dividends, see Publication 550.

Rental Income

You must include in your gross income amounts you receive as rental income. You report them in Part II of Schedule E (Form 1040), *Supplemental Income Schedule*.

You deduct all expenses related to rental income on Schedule E.

Your net rental income or loss from Schedule E is included on line 18, Form 1040.

Depreciation you take on rental property is claimed in Part II of Schedule E. You must explain the depreciation in Part VI of Schedule E.

Expenses. You may deduct from your gross rental income repairs, maintenance, and certain other expenses. Show your total expenses in Part II of Schedule E. Explain the total in Part VII of Schedule E.

Repairs and maintenance expenses, are deductible if they do not add to the value, utility, or useful life of the property. Incidental repairs to keep buildings, equipment, and other rental property in good operating condition are current rental expenses and are deductible.

Other expenses you may deduct from gross rents include such items as advertising, janitor and maid service, utilities, fire and liability insurance, taxes, interest, commissions for the collection of rent, and ordinary and necessary travel and transportation expenses.

For a complete discussion of rents, see Publication 527, *Rental Property*.

Royalties

You must include in gross income royalties from oil, gas, or mineral properties and royalties from copyrights and patents. Royalties are taxable as ordinary income. You report them in Part II of Schedule E, *Supplemental Income Schedule*.

Royalties from coal, gas, oil, copper, timber, or other natural resources are subject to an allowance for depletion. For information on depletion, get Publication 535, *Business Expenses and Operating Losses*.

Royalties from copyrights on literary, musical, or artistic works, and similar property, or from patents on inventions are not subject to a depletion deduction. But you may recover the cost or other basis through depreciation deductions over the life of the copyright or patent. See Publication 534, *Depreciation*.

Pensions and Annuities

Generally, if you did not contribute to the cost of your employee pension or annuity, or your employer did not withhold part of the cost of the contract from your pay while you worked, the amounts you receive each year are fully taxable and must be reported on line 17, Form 1040. For example, if you receive monthly payments totaling $1,200 during the current year from a pension plan that was completely financed by your employer, and you paid no tax on the contributions that your employer made to the plan, the entire $1,200 is taxable. You include $1,200 on line 17, Form 1040.

If both you and your employer contribute to the cost of your pension or annuity, you must use the Three-Year Rule or the General Rule to determine the taxable and nontaxable parts of your pension or annuity.

Three-Year Rule. If both you and your employer contributed to the cost of your employee pension or annuity and you will get back your contribution within 3 years after the date you receive the first payment, no

part of the payments you receive is taxable until your cost is recovered. After your cost has been recovered, all amounts you receive are taxable.

You report your pension or annuity in Part I of Schedule E until you recover your cost. After you have recovered your cost, you report your pension or annuity on line 17, Form 1040.

If you (or you and your spouse if you file a joint return) receive more than one pension or annuity that is not fully taxable, attach a statement to Schedule E (Form 1040) listing the information asked for on lines 1 through 4 of Schedule E for each pension or annuity. Enter the combined total of the taxable pensions and annuities on line 4, Schedule E.

Example. You retired in late 1977 with a monthly pension of $200 beginning in January 1978. Your part of the cost of the pension was $5,200. Your employer contributed the remainder. During the first 36 months you will receive $7,200, which is more than your total cost. In 1978 and 1979 you received $4,800 ($2,400 each year) which was tax free. However, in 1980 you must report $2,000 as taxable income. You figure this amount in the following way:

1) Total pension received in 1980		$2,400
2) Your pension cost	$5,200	
3) Minus: Cost you recovered tax free in 1978 and 1979	4,800	
4) Unrecovered cost—tax free in 1980 (line 2 less line 3)		400
5) Amount of pension taxable in 1980 (line 1 less line 4)		$2,000

You report this amount in Part I of Schedule E (Form 1040). In 1981 and all later years the entire amount you receive will be taxable.

General Rule. If you will not recover your cost within 3 years, generally each pension or annuity payment you receive consists of two parts:

1) A return of your cost, and

2) Taxable income.

To determine the part that is not taxable because it is a return of cost, and the part that is taxable, you must determine your total investment in the contract (your cost) and the expected return from the pension or annuity. Your investment in the contract usually is the total of the contributions or premiums you have paid.

The expected return, in most cases, is based on your life expectancy on the annuity starting date. You must figure the expected return by multiplying the annual pension payment by the appropriate life expectancy multiple in the Internal Revenue Service actuarial tables. This multiple may be obtained from your employer, the administrator of the pension plan, or the insurance company from which you receive the pension; or it may be obtained from the Internal Revenue Service.

To get the excludable part of your annuity, you must divide your net investment in the contract by the expected return. You then apply the percentage figure that results to the payments you receive. This gives you the nontaxable part of your pension or annuity. Enter it on line 3, Part I of Schedule E (Form 1040). If you (or you and your spouse if you file a joint return) receive more than one pension or annuity, attach a separate statement to Schedule E (Form 1040) listing the information asked for on lines 1 through 4 of Schedule E for each pension or annuity and enter the combined totals on Schedule E.

The nontaxable part you figure on the annuity starting date remains the same as long as you get the annuity, even after the payments are more than your expected return. Later increases in the annuity payments (such as for increased cost of living) are fully taxable.

For more information and actuarial tables, see Publication 575, *Pension and Annuity Income.*

Survivors of retirees. If you, as the survivor of a retiree who had reported an annuity under the Three-Year Rule, receive a survivor annuity, you do not include your annuity payments in income until the retiree's cost has been recovered. Thereafter, you must include all your payments in income. If the retiree had recovered all employee contributions before death, your survivor payments are fully taxable.

If the retiree was reporting the annuity payments under the General Rule, you should apply the same exclusion percentage to your payments under the survivor annuity as the retiree used.

If you are a survivor of an individual who died while still employed, in some circumstances you may add up to $5,000 to the deceased's cost of the annuity. This death benefit exclusion is treated as an addition to the cost of the annuity. In some cases, this addition to the cost may increase the cost so that it will not be recovered within the 3-year period. See *Payments to Beneficiaries of Deceased Employees,* later.

Estimated tax. If you receive a pension or annuity, you may have to file Form 1040-ES, *Declaration of Estimated Tax for Individuals.* See *Estimated Tax,* later in this publication.

Withholding. Instead of filing a declaration of estimated tax, you may choose to have income tax withheld from the pension and annuity payments you receive. However, the pension or annuity must be payable over a period of more than one year. To do

this, you must fill out Form W-4P and give it to the payer of the pension or annuity. You must have at least $5 a month withheld. Tax cannot be withheld if the net amount of each payment (after the tax is withheld) would be less than $10.

If you had tax withheld from your pension or annuity, you will be given Form W-2P showing your total annuity paid, taxable amount of annuity paid, and tax withheld.

Disability pensions. Generally, if you retire on disability, you may not report your pension or annuity under the rules explained in this section until the beginning of the tax year in which you reach age 65 or the date on which you reach mandatory retirement age, whichever comes first. However, you may be able to claim the disability income exclusion.

If you meet certain conditions, you may choose not to claim the disability income exclusion. Once this choice is made, it may not be changed. If you make this choice, you should report your disability payments under the rules for pensions and annuities discussed in this section.

For information, see Publication 522, *Disability Payments.*

Individual retirement arrangements (IRA's). Your contributions and the accumulated earnings are taxable when distributed to you. Amounts you receive are fully taxable to you as ordinary income in much the same way as distributions under a pension plan to which your employer made contributions, but to which you made none. For information, see Publication 590, *Tax Information on Individual Retirement Arrangements.*

Military retirement pay, based on age or length of service, is taxable. If you chose a survivor annuity for your spouse or children under the provisions of the Retired Serviceman's Family Protection Plan or the Survivor Benefit Plan, the amount of reduction in retirement or retainer pay used to provide the survivors' annuity to your spouse and children will not be taxed to you. Your spouse must include the survivor payments received in gross income.

Veterans' benefits and insurance are discussed under *Nontaxable Income,* earlier.

Lump-Sum Distributions

The treatment of lump-sum distributions depends on what the distributions represent. Salary or wages paid after the death of the employee usually are ordinary income to the beneficiary.

Lump-sum distributions you receive from a qualified employee retirement plan may be given a special tax treatment. The taxable part of the lump-sum distribution for the time you were in the plan before 1974 is treated as a long-term capital gain. In general, the remainder of the taxable part of the distribution is taxed at ordinary income rates. Generally, this ordinary income part may be taxed under a special 10-year averaging method if you choose to do so. Under certain conditions, you may choose to treat the part of a lump-sum distribution for active participation in a plan before 1974 as ordinary income. For more information, see Publication 575, *Pension and Annuity Income.*

Life Insurance Proceeds

Life insurance proceeds paid to you because of the death of the insured person are not taxable unless the policy was turned over to you for a price. This is true even if the proceeds were paid under an accident or health insurance policy or an endowment contract. However, see the following discussion.

Insurance payments not received in installments. If insurance benefits are paid to you in a lump sum or other than at regular intervals, they are taxable to you only to the extent they are more than:

1) The amount payable to you at the time of the insured person's death, or
2) The present value of the payments at the time of death, if the benefit payable at death was not specified.

Life insurance received in installments. If you receive life insurance proceeds in installments, you may exclude a part of each installment from your income.

To determine the excludable part, you must divide the amount held by the insurance company (generally, the total lump sum payable at the death of the insured person) by the number of installments that are to be paid. Anything over this excludable part must be included in income as interest.

Specified number of installments. If you receive a specified number of installments under the insurance contract, you determine the excludable part of each installment by dividing the amount held by the insurance company by the number of installments to which you are entitled. A secondary beneficiary, if you die before you receive all of the installments, is entitled to the same exclusion.

Example. The face amount of the policy is $75,000 and, as beneficiary, you choose to receive 240 monthly installments of $375 each. The excludable part of each installment is $312.50 ($75,000 ÷ 240) or $3,750 for a year. The rest of each payment, $62.50 (or $750 for a year), is income to you.

Specified amount payable. If each installment you receive under the insurance contract is a specific amount, the excludable part of each installment is the amount held by the insurance company divided

by the number of installments necessary to use up the principal and guaranteed interest in the contract.

Example. As beneficiary, you choose to receive $40,000 of proceeds in 10 yearly installments of $4,000 plus $400 of guaranteed interest a year. During the year you receive $4,400. You may exclude from your gross income $4,000 ($40,000 ÷ 10) as a return of principal. The rest of the installment, $400, is taxable as interest income. (See *Surviving spouse*, discussed later.)

Installments for life. If, as the beneficiary under an insurance contract, you receive the proceeds in installments for the rest of your life without a refund or "period-certain" guarantee, the excludable part of each installment is the amount held by the insurance company divided by your life expectancy. If there is a refund or "period-certain" guarantee, the amount held by the insurance company for purposes of this calculation is reduced by the actuarial value of the guarantee.

Surviving spouse. If insurance proceeds are payable to you because of the death of your spouse, and you receive them in installments, you may exclude up to $1,000 a year of the interest included in the installments. This is in addition to the part of each installment that is excludable as a recovery of the lump sum payable at death. If you later remarry, you may continue to take the exclusion.

Example. Fern Green, a widow, chooses to receive the proceeds of her husband's $75,000 life insurance policy in 10 yearly installments of $8,750. The payments are based upon a certain guaranteed interest rate. She will include $250 in income and exclude $8,500 each year, figured in the following way:

Fixed payment	$8,750
Minus: Prorated amount of insurance principal ($75,000 ÷ 10)	7,500
Excess over prorated amount	$1,250
Minus: Annual exclusion of interest up to $1,000	1,000
Amount included in gross income	$ 250

Interest Option on Insurance

If you leave proceeds from life insurance on deposit with an insurance company under an agreement to pay interest only, the interest paid to you is taxable.

The $1,000 interest exclusion discussed under *Surviving spouse* does not apply to an agreement to pay interest only. If, as a surviving spouse, you choose to receive only the interest from your insurance proceeds, and later decide to receive the proceeds from the policy in installments, you may take the interest exclusion from the time you begin to receive the installments.

Payments to Beneficiaries of Deceased Employees

Beneficiaries may exclude from income the first $5,000 of payments made by or for an employer because of an employee's death. The payments need not be made under a contract. The amount excluded for any deceased employee may not be more than $5,000 regardless of the number of employers or the number of beneficiaries.

This exclusion also covers payments of the balance to the credit of a deceased employee under a stock bonus, pension, or profit-sharing plan, as long as they are received during one tax year of the beneficiary.

Any amount that the deceased employee had a guaranteed right to receive had death not occurred cannot be excluded as a tax-free death benefit.

See Publication 575, *Pension and Annuity Income*, for more information.

Death benefits paid in installments over a period of years are annuity payments. If you are the beneficiary of an employee who died while still employed, the pension or annuity you receive may qualify for a death benefit exclusion. This exclusion is limited to $5,000. If you are eligible for the exclusion, add it to the cost of the annuity. You figure the amount of each payment to exclude from income in the same way as an annuity. Annuity payments to beneficiaries of employees, and the death benefit exclusion on such payments, are discussed in detail in Publication 575.

Endowment Policy Proceeds

Endowment proceeds paid in a lump sum to you at maturity are taxable only when the proceeds are more than the cost of the policy. Any amounts that you previously received under the contract and excluded from income should be added to the lump-sum payment to find out how much of the total is a return of cost and how much is an excess over cost. Any excess over your cost is taxable. If your income is much increased when compared to previous years' income as a result of your receiving a lump-sum payment, you may be able to reduce your total taxes by income averaging. See Publication 506, *Income Averaging*.

Endowment proceeds that you choose to receive in installments instead of a lump-sum payment at the maturity of the policy are taxed under the *General Rule*, explained earlier. For this treatment to apply, you must choose to receive the proceeds in installments before receiving any part of the lump sum and within 60 days after the lump sum first may be paid to you.

Sale of Capital Assets

When you sell or exchange a capital asset, or an asset used in your business, you must report your taxable gain or deductible loss on Schedule D (Form 1040) or on Form 4797.

Long- or short-term gains or losses. If you hold a capital asset for one year or less, the gain or loss from its sale is generally short-term; if you hold it longer than one year, the gain or loss is long-term.

You combine your short-term capital gains and losses reported in Part I of Schedule D by adding your gains and your losses separately and then subtracting one total from the other to find your short-term gain or loss.

You combine your long-term capital gains and losses reported in Part II of Schedule D in the same way to find your long-term gain or loss.

You figure your total net gain or loss by combining your net short-term capital gain or loss with your net long-term capital gain or loss. Enter the result on line 19, Part III of Schedule D.

Capital gain deduction. If your net long-term capital gain is more than your net short-term capital loss, or if you have no net short-term capital loss, you may claim a deduction on line 20, Part III of Schedule D. You figure the amount of your deduction in Part III of Schedule D. The deduction generally is equal to 60% of your net long-term capital gain.

If you have a net short-term capital gain on line 7, Part I of Schedule D, include all of it in your income, unless you reduce it by a net long-term capital loss.

Capital losses. If your capital losses are more than your capital gains, you may claim a capital loss deduction. You figure the deduction in Part III of Schedule D. The deduction is limited to the smallest of the following amounts:

1) Your taxable income for the year reduced (but not below zero) by the zero bracket amount for your filing status and figured without regard to either capital gains and losses or deductions for exemptions, or
2) $3,000, or
3) Your capital loss.

Joint and separate returns. If you and your spouse file a joint return, the $3,000 limit in (2) applies. But if you file separate returns, your post-1969 losses are limited on each return to $1,500—half the amount stated in (2). Neither spouse may use any part of the other's loss.

Figuring your loss. Net short-term capital losses can be used to reduce your income dollar for dollar (subject to limits (1) and (2)), but only 50% of your net long-term capital loss can be used to reduce your income. Therefore, you would need $6,000 of net long-term capital losses to give you a $3,000 deduction. Unused losses, however, may be carried over to the next tax year.

A Schedule D showing how to figure the capital gain deduction is in the *Sample Return* at the end of this publication.

For more information on capital gains and losses, see Publication 544, *Sales and Other Dispositions of Assets*.

Sale of Home

If you sell or exchange your home at a gain and within the 3-year period beginning 18 months before and ending 18 months after the sale you buy and live in another home, the gain may be postponed if certain conditions are met.

If you choose to exclude gain from gross income, as discussed in this publication, the tax on the balance of the gain may be postponed. Or, you may choose to use the installment method to report the balance of the gain.

For more information on postponing your gain, see Publication 523, *Tax Information on Selling Your Home*. For more information on the installment method of reporting your gain, see Publication 537, *Installment and Deferred-Payment Sales*.

Moving expenses. The amount realized on the sale of your home may not be ***decreased*** by real estate commissions or similar expenses you have deducted as moving expenses. Also, the basis of your new home may not be ***increased*** by attorneys' fees or similar expenses you have deducted as moving expenses. For more information, see Publication 521, *Moving Expenses*.

Exclusion of Gain

You may exclude from your gross income some or all of your gain from the sale of your principal home, if you meet certain age, ownership, and use tests at the time of the sale. The exclusion is up to you and you may choose to exlude gain only once for sales after July 26, 1978, and only once for sales on or before that date.

Filing your return. Even if you exclude the gain on the sale of your home from gross income, you must consider that gain in seeing whether you had enough income to require you to file a return

Age, Ownership, and Use

You may choose to exclude from your gross income $100,000 of gain ($50,000 if you are married filing separately) on the sale or exchange of your principal home after July 26, 1978, if:

1) You were 55 or older ***before*** the date of the sale or exchange, and
2) You ***owned and lived in*** the property sold or exchanged as your principal home for at least 3 years out of the 5-year period ending on the date of the sale or exchange (see *If you are 65 or older*, later), and
3) You or your spouse have never excluded gain on the sale or exchange of a home after July 26, 1978.

Age 55 before sale. You must reach 55 before the date you sell the home to qualify for the $100,000 exclusion. You do not meet the age 55 test if you sell the property during the year in which you will be 55 but before you actually become 55. The earliest date on which you may sell your home and still qualify for the exclusion is your 55th birthday.

Ownership and use. The required 3 years of ownership and use during the 5-year period ending on the date of the sale or exchange do not have to be continuous. You meet the test if you can show that you owned and lived in the property as your principal home for either 36 full months or 1,095 days (365 × 3) during the 5-year period. Short temporary absences for vacations, or other seasonal absences, even if you rent out the property during the absences, are counted as periods of use. See, *Ownership and use tests met at different times*, later.

Previous home destroyed or condemned. If you sold or exchanged your principal home after July 26, 1978, you may add the time you owned and lived in a previous home that was destroyed or condemned to the time you owned and lived in the home on which you wish to exclude gain, for meeting the ownership and use tests. This applies if any part of the basis of the home you sold or exchanged depended on the basis of the destroyed or condemned home. Otherwise, you must have owned and lived in the ***same*** home sold or exchanged for 3 out of the 5 years before the sale or exchange to qualify for the exclusion.

If you are 65 or older on the date of the sale or exchange, you may qualify for the exclusion if you owned and lived in the property as your principal home for at least 5 years out of the 8-year period ending on the date of the sale or exchange. This applies only to a sale or exchange of your home before July 26, 1981.

Example 1. Alice Locke had owned and lived in a house as her principal home continuously for 20 years. On January 1, 1978, she retired and moved to another state. Her house was vacant until January 1, 1979, when she leased it for a year. On July 1, 1980, after the lease ran out, she sold it. At that time she was over 65. She may choose to exclude her gain on the sale of this house, because she meets the age, ownership, and use tests. Even though she did not meet the 3-out-of-5-years test, she had owned and lived in the house as her principal home for 5 of the 8 years before the sale.

Example 2. Joseph Mooney lived with his son and daughter-in-law in a house owned by his son from 1973 through 1977. On January 1, 1978, he bought this house from his son and continued to live there until May 31, 1980, when he sold it. Although Joseph ***lived in*** the property as his principal home for more than 3 years, he cannot exclude his gain on the sale, because he did not ***own*** the property for the required 3 years.

Example 3. Professor John Thomas bought and moved into a house on January 1, 1977, and lived in it as his principal home continuously until February 1, 1979, when he went abroad for a 1-year sabbatical leave. During part of the period of leave, the property was unoccupied, and during the rest of the period, he rented it out. On March 1, 1980, he sold the house. Because his leave was not a short temporary absence, he may not include the period of leave in meeting the test that he must have lived in the house as his principal home for 3 years or more. He may not exclude his gain from income, because he did not live in the house for the required time.

Ownership and use tests met at different times. The ownership and use tests may be met during different 3-year periods as long as both tests are met during the 5-year period ending on the date of the sale or exchange. This rule also applies to the 5-out-of-8-year tests if you are 65 or older.

Example. In 1970 Grace Jones was 60 years old and lived in a rented apartment. The apartment building was later changed to a condominium and she bought her apartment on July 15, 1974. In 1977 Grace became ill and on April 15 of that year she moved to a nursing home. On February 15, 1980, while still in the nursing home, she sold her apartment.

Grace may exclude the gain on the sale of her apartment, because she met the age, ownership, and use tests. Grace was over 65 at the time of the sale, so she may qualify under the 5-out-of-8-year test. Her 8-year period is from February 16, 1972, to February 15, 1980, the date she sold the apartment. She owned her apartment from July 15, 1974, to February 15, 1980 (over 5 years). Grace lived in the apartment from Feburary 16, 1972, to April 15, 1977 (over 5 years).

Principal home. Usually the home in which you live is your principal home (residence). If you own a ***condominium*** home or apartment, it may be your principal home. If you are a tenant-stockholder in a ***coopera-***

tive housing development and you own an apartment, that apartment may be your principal home.

When you use only part of the property as your principal home, the rules for exclusion of gain, apply only to the gain on the sale or exchange on that part of the property.

Example. Dr. Martin Russell met the age, ownership, and use tests that applied on the date he sold his principal home. However, for the whole time he owned the home, he used half of it exclusively as an office for treating his patients. Only the half of the property used as his home qualifies for the choice to exclude gain from gross income, because Dr. Russell did not use the whole property as his principal home.

If you trade your old home for a different home, the trade is treated as a sale and a purchase. Gain on the old home may qualify for exclusion from gross income.

If your home is condemned for public use, you may postpone the tax on the gain either under the rules discussed in Publication 523 or under the rules in Publication 549, *Condemnations of Private Property for Public Use.* You also may choose to exclude the gain from gross income as discussed in this publication. Then, the tax on the balance of the gain may be postponed, as described in Publications 523 or 549.

If your home is damaged by fire, storm, or other casualty, you may choose to postpone gain from insurance proceeds, or other compensation under the rules discussed in Publication 547, *Tax Information on Disasters, Casualties, and Thefts.* You may choose to exclude the gain from gross income as discussed in this publication. Then, the tax on the balance of the gain may be postponed under the rules discussed in Publication 547.

Jointly owned home. Both you and your spouse will meet the age, ownership, and use tests if:

1) You hold the home as joint tenants, tenants by the entirety, or as community property on the date of the sale or exchange, and
2) You file a joint return for the tax year in which you sell the home, and
3) Either of you is age 55 or older before the date of sale and has owned and lived in the property as a principal home for the required time before the sale or exchange.

Home of spouse who died. You will meet the ownership and use tests if on the date you sell your principal home:

1) Your spouse is deceased, and
2) You have not remarried, and
3) Your deceased spouse had met the ownership and use tests for that principal home, and
4) Your deceased spouse had not previously chosen or joined in choosing to exclude gain on the sale or exchange of another principal home after July 26, 1978.

Example. Ellen and Doug Smith were married January 1, 1978, and afterwards lived in, as their principal home, property that Doug had owned and lived in continuously as his principal home since January 1, 1970. Doug died on January 1, 1980, never having chosen or joined in choosing to exclude gain on the sale or exchange of any home.

Ellen inherited and continued to live in the property as her principal home until December 10, 1980, when she sold it. At the date of sale she was 56 years old, had not remarried, and had never chosen or joined in choosing to exclude gain on the sale or exchange of any home. Because Doug, during the 5-year period ending on the date Ellen sold the property, met the 3-year ownership and use tests for this property, and because Ellen meets the age test, she may choose to exclude up to $100,000 of the gain on the sale from her gross income. See *Making and Revoking a Choice to Exclude Gain,* discussed later.

Executor's sale of a home. Gain from the sale of a home by the executor of an estate does not qualify for this exclusion, even if the sale is made under a contract entered into before death by a taxpayer who met the age, ownership, and use tests.

Effect of Marital Status

You determine your marital status as of the date of sale or exchange of the home. If you are divorced by the date of the sale or exchange, you are not considered married.

If you are married at the time you sell or exchange your principal home, you may not choose to exclude the gain unless your spouse joins you in making the choice.

A joint choice is needed even though:

1) You or your spouse owned the home separately, or
2) You and your spouse filed separate returns, or
3) The spouse not owning an interest in the home had not lived in it for the required period before the sale or exchange.

If the home is not jointly owned, the spouse who owns the property must meet the age, ownership, and use tests discussed earlier. The other spouse must join in making the choice.

Separate return. If you are married and file a separate return, you may choose to exclude no more than $50,000 of gain on the sale or exchange of your principal home if you meet the tests discussed earlier.

Your spouse must show agreement to your choice by writing in the bottom margin of Form 2119 or an attached statement, "I consent to Part III election" and by signing his or her name.

You May Exclude Gain Only Once

You or your spouse may exclude gain only once. If you or your spouse choose to exclude gain from a sale or exchange after July 26, 1978, neither of you may choose to exclude gain again for a sale or exchange after that date. If you and your spouse each owned separate homes before your marriage and sold both homes after your marriage, you may exclude the gain on one of them, but not on both. If after choosing to exclude gain, you and your spouse divorce, neither of you may exclude gain again. If you remarry, you and your new spouse may not exclude gain on sales or exchanges after your marriage. However, a previous choice may be revoked as discussed later under, *Making and Revoking a Choice to Exclude Gain.*

Example 1. In 1970, while Sam and Ethel Green were married, Sam sold his separately-owned home, and chose to exclude from gross income gain from its sale. Ethel joined in this choice. The Greens were later divorced, and Ethel married Ben North. On March 15, 1978, while the Norths were married, Ben sold his home. Ben could not choose to exclude the gain on the sale from gross income, because Ethel had joined her former husband in such a choice. If Ben had waited until after July 26, 1978, to sell his home, he could have excluded the gain if he met the age, ownership, and use tests.

Example 2. Frank and Sheila Brown were married. In January 1979 they sold their jointly owned home. Frank and Sheila met the age, ownership, and use tests, so they chose to exclude their gain of $70,000 on their joint return for 1979. The Browns divorced in February 1980.

In July 1980 Sheila married Mike Jones. Mike had sold his home in March 1980 when he was single. He met the age, ownership, and use test at the time of sale. If Mike and Sheila file a joint return for 1980, Mike may choose to exclude up to $100,000 gain because he was single at the time he sold his home. This is so even though Sheila joined Frank in choosing to exclude gain.

If Mike files a separate return for 1980, he may exclude only up to $50,000 gain.

Example 3. Joe Johnson and Betty Smith were single and each owned a home. In August 1980 they sold their homes and each had a gain of $100,000 for a total gain of $200,000. Each met the age, ownership, and use tests at the time of sale.

In October 1980 Joe and Betty married. Because Joe and Betty were single when they sold their homes, they each may choose to exclude $100,000 of gain ($200,000 total) if they file a joint return. If they file separate returns each may exclude only $50,000.

Example 4. In February 1980 Bill and Sally White were divorced. At that time they had their jointly owned home up for sale. Sally married Ken Brown in November 1980. In December 1980 Bill and Sally's home was sold. Because Bill and Sally were not married to each other at the time their home was sold and they each met the tests to exclude gain, each may choose to exclude up to $100,000 gain based on the part of the home each owned. (See *Example* under *More than one owner,* later.) Sally files a joint return and chooses to exclude up to $100,000 of her part of the gain. Ken joins Sally in her choice. Bill files a single return and chooses to exclude up to $100,000 of his gain.

If Ken Brown later sells a home, he may not choose to exclude gain because he was required to join Sally in her choice to exclude gain. Ken is considered to have made a lifetime choice.

Example 5. David and Beth Pine sell their jointly owned home. They both meet the ownership and use tests at the time of sale but David is 62 and Beth is 50. They file separate returns for the year their house is sold. Because Beth does not meet the age test, she may not choose to exclude gain on her separate return. David may choose to exclude gain on his separate return only if Beth joins him in making his choice, but he may exclude only up to $50,000 gain.

If Beth later sells a home she may not choose to exclude gain because she was required to join David in his choice to exclude gain.

Making and Revoking a Choice to Exclude Gain

You may make or revoke a choice to exclude gain from a particular sale or exchange at any time before the later of the following dates:

Three years from the due date of the return for the year of sale, or

Three years from the date the return was filed, or

Two years from the date the tax was paid.

Making the choice. You make the choice by attaching a filled-in Form 2119, *Sale or Exchange of Principal Residence,* or a signed statement, to your income tax return for the year in which you sell or exchange your home. The statement must say that you choose to exclude from income the gain from the sale or exchange. It also must include:

1) Your name, age, social security number, and marital status on the date of the sale or exchange. If jointly owned, give this information for each owner,

2) The dates you bought and sold the home,
3) The adjusted sales price and the adjusted basis of the property on the date of sale,
4) How long you were away from the home during the 5 years before the sale, except for vacations and other seasonal absences, even if you rented out the home during these absences, and
5) Whether you or a joint owner ever chose to exclude gain on the sale of a home, and if you did, when and where you did so. If you revoked the choice, give the date it was revoked.

You may, after originally reporting the gain on the sale of your home, choose to exclude the gain from taxable income. You do so by filing an amended return on Form 1040X. You must send a filled-in Form 2119 or a statement with your amended return.

If your spouse died after the sale or exchange but before making the choice, the deceased's personal representative (for example, administrator or executor) must join with you in making the choice. You, as the surviving spouse, are considered the personal representative of the deceased if no one else has been appointed.

Revoking the choice. The spouse who joined you in making the choice must join you in revoking it. If your spouse is deceased, your spouse's personal representative must join in revoking any choice previously made by you and your deceased spouse, or by you and the deceased's personal representative. You must revoke your choice in a signed statement showing your name and social security number. Include in the statement the year in which you made the choice. Send it to the Internal Revenue Service Center where you filed the choice. It also may be filed with your local Internal Revenue office.

If, at the time you revoke your choice, less than a year is left in the assessment period (time for determining your correct tax) for the tax year for which the choice was made, you must agree, in writing, that the assessment period will not run out before the end of one year after the filing of the statement. You must file this agreement before the end of the assessment period for the tax year you made the original choice to exclude gain. The assessment period normally ends on the later of the following dates:

Three years from the due date of the return for the year of the sale, or

Three years from the date the return was filed, or

Two years from the date the tax was paid.

More Than One Owner

If a husband and wife who meet the age, ownership, and use tests, sell their jointly owned home, they are considered one for finding the gain to be excluded from income. But, if the joint owners of a home are other than husband and wife, each individual owner who meets the age, ownership, and use tests may exclude his or her gain on an individual basis.

Each owner who chooses to exclude gain from gross income must meet the age, ownership, and use tests. If one owner meets the tests, that does not automatically qualify the other owners to exclude their gain from gross income. A choice by one owner does not keep the other owners from making a similar choice in the future.

Example. Frank Smith and his sister, Mary, each own a half interest in their jointly-owned home. They both meet the age, ownership, and use tests. The adjusted basis of the home is $28,000 or $14,000 each. They sell the home and the adjusted sales price is $140,000. The adjusted sales price of Frank's interest in the home is $70,000 (1/2 × $140,000). He may choose to exclude from gross income his entire gain of $56,000 ($70,000 minus $14,000). Mary also may choose to exclude her entire gain from income, because her gain also is not more than $100,000.

If Frank and Mary were husband and wife, they could exclude only part of the gain. They could exclude $100,000 from their income but could not exclude the remaining $12,000 of their gain.

How to Exclude Gain

To figure the gain that you may exclude, you must know the selling price, the amount realized, and the total gain.

The selling price is the total amount you receive for the property, including money, all notes, mortgages, or other debts that are part of the sale, and the fair market value of other property you receive.

The amount realized is the selling price minus selling expenses.

Selling expenses include commissions, advertising, and legal fees. Loan charges, such as loan placement fees or "points," are usually selling expenses.

The total gain on the sale of your old home is the amount realized minus the adjusted basis of your property.

Adjusted basis is your original basis, the amount you paid in cash or other property, ***increased*** or ***reduced*** by certain amounts. You must increase your basis for improvements, additions, and other capital items. You must reduce the basis for losses from fire or other casualty, payments you receive for any easements or rights-of-way you give up, and depreciation you claim if you use your home for business or rental purposes.

There are numerous instances when a basis other than cost must be used, for example, if you acquired your home by gift or inheritance. For a complete discussion of basis, see Publication 551, *Basis of Assets.*

Exclusion. You may exclude $100,000 of your gain on the sale of your home. If you are married filing separately, however, you may exclude only $50,000 of gain on the sale. If there is a gain remaining after the exclusion, you may postpone it if you buy or build another home. See Publication 523.

Example. Tom White, a single person, sold his principal home on September 13, 1980. His gain on the sale was $70,000. Because Tom was 58 years old on the date of the sale, had owned and lived in the property as his principal home for the past 10 years, and had not previously choosen to exclude gain on the sale or exchange of a home, he chooses to exclude the gain on the sale of this home. Tom's Form 2119 is shown in this publication.

Repayment of Tax Credit—New Home Buyer

If you bought or built a new home that you acquired and first lived in after March 12, 1975, and before January 1, 1977, you may have been able to take a credit against your 1975 or 1976 federal income tax of 5% of the price of the new home, up to a maximum credit of $2,000.

If you sell or otherwise dispose of the home on which the credit was allowed within 36 months after you acquired it, and do not properly replace the home or come under one of four exceptions, you must add back the full amount of the credit to your federal income tax.

For complete information on the repayment of the tax credit, see Publication 523, *Tax Information on Selling Your Home.*

Adjustments to Income

You may be able to subtract certain adjustments from your gross income to get your adjusted gross income.

Moving Expenses

If you moved to a new home last year because you went to work full time as an employee, or as a self-employed individual, at a new job location, you may be able to deduct the expenses of your move. You may deduct your allowable moving expenses even if you do not itemize your deductions.

Subject to certain limits, your moving expense deduction may include your:

1) Traveling to the new location,
2) Moving household goods and personal things,
3) Househunting trips before your move,
4) Temporary living expenses at the new location, and
5) Disposing of your old home and getting the new one.

How to qualify. You may be able deduct your moving expenses if you meet the following tests.

1) Distance. Your new main job location must be at least 35 miles farther from your old home than your old job location was. If you did not have an old job location, your new job location must be at least 35 miles from your old home. If the distance is not 35 miles or more, you cannot deduct your moving expenses.

2) Time. You must be employed ***full time*** for at least 39 weeks during the 12-month period following your arrival in the general area of your new main job location. If you are self-employed, you must work full time for at least 39 weeks during the first 12 months and at least 78 weeks during the 24 months after your arrival in the area of your new main job location.

For more information, get Publication 521, *Moving Expenses.*

Interest Penalty on Early Withdrawal of Savings

If you withdraw funds from a time savings account before maturity, you may be charged an interest penalty. You must report on line 9, Form 1040, the gross amount of interest that you received or that was credited to your account during 1980. You do not subtract the interest penalty from your interest income. You deduct the interest penalty on line 27, Form 1040. The Form 1099-INT given to you by the financial institution will show the gross amount of interest income and the interest penalty.

Alimony

You may deduct alimony, separate maintenance, or similar periodic payments that you are required to make to your spouse or former spouse. You may not deduct payments to your spouse or former spouse for child support. You deduct alimony payments on line 28, Form 1040. You may claim them even if you do not itemize your deductions.

For information on alimony and other federal income tax rules of particular interest to divorced or separated individuals, see Publication 504, *Tax Information for Divorced or Separated Individuals.*

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale or Exchange of Principal Residence

▶ See instructions on back.
▶ Attach to Form 1040.

1980
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Note: *Do not include expenses you are deducting as moving expenses on Form 3903.*

Name(s) as shown on Form 1040: TOM WHITE

Your social security number: 444 44 4444

		Yes	No
1 (a)	Date former residence sold ▶ SEPTEMBER 13, 1980		
(b)	Have you ever postponed any gain on the sale or exchange of a principal residence?		✓
(c)	Have you ever claimed a credit for purchase or construction of a new principal residence? (If "Yes," see Form 5405.)		✓
(d)	If you were on active duty in the U.S. Armed Forces or outside of the U.S. after the date of sale of former residence, enter dates. From N/A to		
2 (a)	Date new residence was bought ▶ N/A		
(b)	If new residence was constructed by you, date construction began ▶ N/A		
(c)	Date you occupied new residence ▶		
(d)	If you answered "Yes," to 1(c), did anyone live in your new replacement residence before you did?		
(e)	Were both the old and new properties used as your principal residence?	N/A	
(f)	Were any rooms in either residence rented out or used for business at any time? (If "Yes," see note in line 7 and attach computation.)		✓

Part I Computation of Gain and Adjusted Sales Price

3	Selling price of residence. (Do not include selling price of personal property items.)			3	130,000 00
4	Commissions and other expenses of sale			4	10,000 00
5	Amount realized (subtract line 4 from line 3)			5	120,000 00
6	Basis of residence sold	6	50,000 00		
7	Gain on sale (subtract line 6 from line 5). (If line 6 is more than line 5, enter zero and do not complete the rest of form.) If you bought another principal residence during the allowed replacement period or you elect the one time exclusion in Part III, continue with this form. Otherwise, enter the gain on Schedule D (Form 1040), line 2 or 9. If you intend to replace the residence within the allowed replacement period see instruction B.	7	70,000 00		
	Note: *Do not include in line 7 the amount attributable to rented rooms or other business purposes; instead, report separately on Form 4797.*				
8	Fixing-up expenses			8	-0-
9	Adjusted sales price (subtract line 8 from line 5)			9	120,000.00

Part II Computation of Gain to be Postponed and Adjusted Basis of New Residence

10	Cost of new residence	10	-0-
11	Gain taxable this year. (Subtract line 10 from line 9. Do not enter more than line 7.) If line 10 is more than line 9, enter zero. Enter any taxable gain on Schedule D (Form 1040), line 2 or 9. If you were 55 or over on the date of sale, see Part III	11	70,000 00
12	Gain to be postponed (subtract line 11 from line 7)	12	
13	Adjusted basis of new residence (subtract line 12 from line 10)	13	

Part III Computation of Exclusion, Gain to be Reported, and Adjusted Basis of New Residence

		Yes	No
14 (a)	Were you 55 or over on date of sale?	✓	
(b)	Was your spouse 55 or over on date of sale? (If you answered "No" to 14(a) and 14(b), do not complete the rest of form.)		
(c)	If you answered "Yes" to 14(a) or 14(b) did you own and use the property sold as your principal residence for a total of at least 3 years (except for short temporary absences) of the 5-year period before the sale? (If you are 65 or over, see instruction C.)	✓	
(d)	If you answered "Yes" to 14(c), do you elect to take the once in a lifetime exclusion of the gain on the sale? (If "Yes," check yes box and complete the balance of Part III. If "No," return to Part II, line 12 above.)	✓	
(e)	At time of sale, was the residence owned by: ☑ you, ☐ your spouse, ☐ both of you?		
(f)	Social security number of spouse, at time of sale, if different from number on Form 1040 ▶ NONE (Enter "none" if you were not married at time of sale.)		

15	Exclusion: Enter the smaller of line 7 or $100,000 ($50,000, if married filing separately)	15	70,000	00
16	Part of gain included (subtract line 15 from line 7)	16	-0-	
17	Cost of new residence. If you did not buy a new principal residence, enter "None." Then enter the gain from line 16 on Schedule D (Form 1040), line 9, and do not complete the rest of Form 2119	17	NONE	
18	Gain taxable this year. (Subtract the sum of lines 15 and 17 from line 9. The result cannot be more than line 16.) If line 17 plus line 15 is more than line 9, enter zero. Enter any taxable gain on Schedule D (Form 1040), line 9	18		
19	Gain to be postponed (subtract line 18 from line 16)	19		
20	Adjusted basis of new residence (subtract line 19 from line 17)	20		

Other Adjustments

There are other items that you may claim as adjustments to income. These adjustments are discussed in the following publications:

Disability Payments, Publication 522

Travel, Entertainment, and Gift Expenses, Publication 463

Tax Information on Individual Retirement Arrangements, Publication 590

Tax Information on Self-Employed Retirement Plans, Publication 560

Itemized Deductions

Some individuals must itemize their deductions and some should itemize their deductions because it will save them money. You should read the following to decide if you must itemize deductions or if it would be to your advantage to itemize deductions.

You must itemize your deductions if you are a:

1) Married person filing a separate return and your spouse itemizes deductions. However, see *Certain married persons living apart*, later,
2) U.S. citizen entitled to special benefits for income from a U.S. possession other than Puerto Rico, or
3) Person filing a short-year return because of a change in accounting period.

You may choose to itemize your deductions only if your deductions are more than the zero bracket amount for your filing status.

Your zero bracket amount is the part of your income that is not subject to tax. This amount depends on your filing status.

If you are:	Your zero bracket amount is:
Married, filing jointly, or a qualifying widow or widower	$3,400
Single, or a head of household	$2,300
Married, filing separately	$1,700

You do not have to figure these amounts because they are built into the tax tables and tax rate schedules.

If you itemize your deductions, you will have to subtract your zero bracket amount from your total itemized deductions on Schedule A. However, you will receive the full benefit of your itemized deductions because the zero bracket amount has been built into the tax tables and tax rate schedules.

Certain married persons living apart. You are not considered married if (1) you file a separate return, (2) your child or stepchild lived in your home for more than 6 months of the tax year and can be claimed by you as a dependent, (3) your spouse did not live in your home at any time during the tax year, and (4) you paid more than half the cost to keep up your home for the tax year.

If you meet all of the above tests, you may file as a single individual. Your zero bracket amount will be $2,300 instead of $1,700. You will not have to itemize your deductions, even if your spouse does. You may file as a head of household if your home in test (2) was the child's principal home for the ***whole*** year and you meet the other tests. See *Head of household* under *Your Filing Status*, earlier.

You may benefit from itemizing deductions if you:

1) Had large uninsured medical and dental expenses during the year, or
2) Paid interest and taxes on your home, or
3) Made large contributions to qualified charities, or
4) Had a major uninsured casualty loss.

What Are Itemized Deductions

Medical and dental expenses, some taxes, charitable contributions, certain interest expenses, and certain losses and other expenses may be itemized as deductions on Schedule A (Form 1040).

Medical and Dental Expenses

You may deduct certain medical and dental expenses you paid for yourself, your spouse, and your dependents, if you itemize your deductions on Schedule A (Form 1040).

The following lists show those items generally deductible as medical expenses, and those items generally not deductible.

Medical Expenses You May Deduct

Fees for doctors, surgeons, dentists, osteopaths, ophthalmologists, optometrists, chiropractors, chiropodists, podiatrists, psychiatrists, psychologists, and Christian Science practitioners

Fees for hospital services, therapy, nursing services (including nurse's meals while on duty), ambulance hire, and laboratory, surgical, obstetrical, diagnostic, dental, and X-ray services

Meals and lodging provided by a hospital during medical treatment, and meals and lodging provided by a center during treatment for alcoholism or drug addiction

Medical and hospital insurance premiums

Special equipment, such as a motorized wheelchair, hand controls on a car, and a special telephone for the deaf

Special items, including false teeth, artificial limbs, eyeglasses, hearing aids, crutches, and guide dogs for the blind or deaf

Transportation for needed medical care

All your medicines and drugs

Special foods and drinks your doctor prescribed only for the treatment of an illness

Vitamins, iron, etc., your doctor prescribed

Medical Expenses You May Not Deduct

Bottled water

Funeral and burial expenses

Health club dues

Household help

Program to stop smoking

Social activities, such as dancing lessons for the general improvement of your health, even though your doctor advises them

Toothpaste, toiletries, cosmetics, etc.

Trip for general improvement of health

Vitamins for general health

Weight loss program

Limits. There are limits on amounts you may deduct. You may deduct only the part of your medical and dental expenses that is more than 3% of your adjusted gross income (line 31, Form 1040).

The cost of medical insurance is an exception to this limit. You may deduct half of your medical insurance premiums, but not more than $150. The rest is deductible as a medical expense, subject to the 3% limit.

Your medicine and drug expenses are subject to both a 1% limit and the 3% limit. You may deduct only medicine and drug expenses that are more than 1% of your adjusted gross income, subject to the 3% limit.

Taxpayers and dependents 65 or older, as well as younger persons, are subject to the 1% and 3% limits.

You may deduct expenses only in the year you paid them. If you charge medical expenses to your credit card, deduct the expenses in the year the charge is made. It does not matter when you actually pay the amount charged.

Include in Medical Expenses

Medical expenses are payments you make for the diagnosis, cure, relief, treatment, or prevention of disease. They also include payments for treatment affecting any part or function of the body. Expenses for transportation for needed medical care are included in medical expenses. Payments for insurance that provides medical care for you, your spouse, and dependents are included in medical expenses.

Medical Insurance Premiums

You may deduct half the amount you paid for medical insurance, but not more than $150, on line 1, Schedule A (Form 1040). Put the balance on line 5, Schedule A, and add it to your other medical expenses.

Include in medical expenses medical insurance premiums you pay if the payments are for—

Policies that provide payment for hospitalization, surgical fees, and other medical expenses.

Policies that provide only for the payment of the cost of prescription drugs.

Policies that provide for replacement of lost or damaged contact lenses.

The medical care part in policies that provide more than one type of payment if the medical charge is reasonable, and is stated separately in the insurance contract, or is given to you in a separate statement.

Membership in an association furnishing cooperative, or so-called "free choice" medical service, or group hospitalization and clinical care.

Medicare B, supplementary medical insurance for the aged. If you applied when you were first eligible at age 65, you may deduct the Medicare B monthly basic premium rate of $8.70 from January through June and $9.60 from July through December multiplied by the number of months in 1980 you were enrolled. However, your monthly premium will be more if you were over 65 when you first enrolled. Check the information you received from the Social Security Administration to find out your premium rate.

Medicare A, the part of social security that covers basic Medicare. You may deduct premiums you voluntarily pay for Medicare A coverage if you are 65 or older and you are not entitled to social security benefits.

Medicare A premiums are ***not*** deductible if they are paid as a part of your social security tax.

Prepaid insurance premiums you pay before you are 65, for insurance covering medical care—for yourself, your spouse, or a dependent—after you are 65. You deduct them when paid if they are payable in equal yearly payments or more often. The payments must be made for at least 10 years, or until you reach 65, but in any case for at least 5 years.

The cost of health insurance paid for by applying the value of your unused sick leave when you retire. Under certain employer health plans, you may continue to participate in the health plan after you retire. You may either receive a cash payment for unused sick leave or have the payment applied to the cost of insurance. When you retire under such a plan, you must include the value of the unused sick leave in your gross income. You may deduct the payment to

the health insurance plan. But, if you retire under an employer health plan that provides that the value of the unused sick leave is set aside by your employer to pay for health insurance premiums only and you may not be paid cash for it, you do not include the value of the unused sick leave in your gross income. You may not deduct it as a medical expense.

You may not include premiums paid for life insurance policies, or on policies providing repayment for loss of earnings or for the accidental loss of life, limb, sight, etc.

You may not deduct premiums paid for a policy that guarantees a specified amount each week (for a specified number of weeks) if you are hospitalized for sickness or injury.

Medicines and Drugs

Put the amount you paid for your medicine and drug expenses on line 2, Schedule A (Form 1040). Enter 1% of your adjusted gross income on line 3, Schedule A, and subtract that amount from line 2. Put the balance on line 4 and add it to your other medical expenses. This amount is then subject to the 3% limit mentioned earlier. You may include the following payments for medicine and drugs in your medical expenses—

Medicines and drugs legally obtained and generally recognized as medicines and drugs. They do not have to be prescribed. Do not include amounts spent for toothpaste, toiletries, cosmetics, etc., or for bottled water used to avoid drinking other water.

Vitamins, iron, etc., prescribed or recommended by your doctor. Do not include these items if you take them only for your general health unless they are prescribed or recommended by your doctor.

A special food or drink prescribed by a doctor only for the relief or treatment of an illness. It must be in addition to your normal diet and in no way a part of your nutritional needs. You should attach to your return a statement from your doctor showing that you need the special foods. Do not include the cost of special foods or drinks that replaces what you normally eat or drink.

Example. Your doctor prescribes 2 ounces of whiskey twice a day for relief of angina pain resulting from a heart disease. The cost of the prescribed amount of whiskey is a medical expense.

Medical Care

Enter fees you paid for doctors, dentists, nurses, and similar medical services on line 6a, Schedule A (Form 1040). Enter amounts you paid to hospitals on line 6b, Schedule A. Enter other amounts you paid for medical care on line 6c, Schedule A.

You may include the following payments in medical expenses—

Payments to doctors, surgeons, dentists, osteopaths, ophthalmologists, optometrists, chiropractors, chiropodists, podiatrists, psychiatrists, psychologists, and Christian Science practitioners, and others for medical services.

Payments for hospital services, therapy and similar services, nursing services (including nurse's meals you provided), ambulance hire, and laboratory, surgical, diagnostic, dental, and X-ray fees.

Payments for a face lift or other cosmetic surgery.

Charges for medical care included in the life-care fee of a retirement home which is paid on a monthly basis, as long as a breakdown of the charges is included in the bill or is given separately by the home.

A life-care fee, or a "founder's fee" paid monthly or as a lump sum under an agreement with a ***retirement home.*** The deductible amount must be properly set apart for medical care. The agreement must require a lump-sum payment or advance payment as a condition for the home's promise to provide lifetime care that includes medical care.

Payments for wages for an attendant who provides nursing services. You may include in medical expenses out-of-pocket amounts you paid for the attendant's meals. You divide the food expense among the household members to find the cost of the attendant's food. If you had to pay additional out-of-pocket amounts for household upkeep because of the attendant, include as a medical expense the extra amount you paid. This includes items such as extra rent you paid because you moved to a larger apartment to provide space for the attendant, or the extra cost of utilities for the attendant. If the attendant also provided personal and household services, you must further divide these amounts between the time spent in performing household and other personal services and time spent on nursing services. Only the amount spent for nursing services is a medical care expense.

Social security (FICA) tax you paid for a worker who provides medical care.

Payments for acupuncture.

Payments to a treatment center for drug addicts or alcoholics, including meals and lodging provided by the center during medical treatment.

Payments for surgical, hospital, laboratory, and transportation expenses for a donor or a possible donor in connection with a kidney transplant.

Meals and Lodging

Payment for meals and lodging provided by a hospital or similar institution as a necessary part of medical care is a medical expense if the main reason for being in the hospital is to receive medical care. Include your payment for meals and lodging provided by hospitals on line 6b, Schedule A (Form 1040).

Nursing home. If you, your spouse, or your dependent is in a nursing home or a home for the aged because of a physical condition, and the main reason for being there is to get medical care, you may include as a medical expense the entire cost, including meals and lodging. Include the amount you pay on line 6c, Schedule A.

Do not include the cost of meals and lodging if you, your spouse, or your dependent is in the home mainly for personal or family reasons. In that case you may include only the part of the cost for medical or nursing care as a medical expense.

You may not deduct the cost of your meals and lodging while you are away from home for medical treatment, or for the relief of a specific condition, even if the trip is made on the advice of your doctor.

Special Items and Equipment

You may include the following payments as medical expenses on line 6c, Schedule A—

Payments for false teeth, artificial limbs, eyeglasses, hearing aids, and crutches.

Cost and care of guide dogs for the blind and deaf. These expenses are medical, not business expenses, even if you use the dog in your business.

The cost and repair of special telephone equipment that enables a deaf person to communicate over a regular telephone.

The part of the cost of braille books and magazines that is more than the price for regular books and magazines.

Amounts paid to a plan that keeps your medical information by computer and that can give the information when you need it.

Amounts paid for oxygen equipment and oxygen to relieve problems in breathing due to a medical condition.

Legal fees paid to allow treatment for mental illness. If part of the legal fees is not for medical care you may not include that part as a medical expense.

Costs of special equipment, such as a motorized wheelchair or autoette, special hand controls and other special equipment installed in a car specifically for the use of a physically handicapped person. You may include the amount you pay for special design of a car to hold a wheelchair as a medical expense.

The cost of operating and keeping up an autoette or wheelchair used mainly for the relief of sickness or disability, and not just to provide transportation between your home and your job, is also a deductible medical expense.

You may not include the total cost of operating a specially equipped auto. See *Transportation* for those expenses you may include.

Transportation

Payment for transportation necessary for medical care qualifies as a medical expense. Enter the amount you paid for transportation on line 6c, Schedule A. You may include—

Amounts paid for bus, taxi, train, or plane fare, or for ambulance hire.

Amounts paid for gas, oil, parking fees, etc. Instead of figuring the actual operating expenses, you may use a standard mileage rate of 9 cents for each mile you use your car for medical purposes. You may deduct parking fees and tolls you pay, in addition to the 9 cents a mile.

You may not include depreciation, insurance, or general repair and maintenance expenses on your car, no matter which method you choose to figure the deduction.

Transportation expenses of a nurse familiar with injections, medications, and other treatment required by a patient who is traveling to get medical care and who cannot travel alone.

Transportation costs are not deductible if, for nonmedical reasons, you choose to travel to another city, such as a resort area, for an operation or other medical care prescribed by your doctor.

Capital Expenses

You may include payments for special equipment installed in a home, or similar improvements made for medical reasons, as medical expenses even if they are capital improvements. If these expenses are for permanent improvements that increase the value of the property, you may include them as medical expenses only in the amount that the expenses are more than the increase in the value of the property. Enter these expenses on line 6c, Schedule A.

Example 1. You suffer from an allergy. On your doctor's advice you have central air conditioning installed to give you relief from your allergy and your difficulty in breathing. The cost of the equipment is $3,000 but, according to competent appraisers, your property is increased in value by $2,500. You may include the difference of $500 as a medical expense. If

the value of your home is not increased, you may include all of the $3,000.

Example 2. If for the same reasons as in Example 1, you buy a portable air conditioner that is not made a permanent part of your home, you may include the cost, minus the resale or salvage value, of the portable air conditioner.

Example 3. You have a heart ailment. On your doctor's advice, you install an elevator in your home so you will not need to climb stairs. This elevator costs $1,000. According to competent appraisals, the elevator increases the value of your home by $700. The $300 difference is a medical expense. If the elevator had not increased the value of your home, the whole cost would have been a medical expense.

If a capital expense qualifies as a medical expense, amounts paid for operation or upkeep also qualify as a medical expense, as long as the medical reason for the capital expense still exists. These expenses are medical expenses even if none or only part of the original expense was deductible.

Do Not Include In Medical Expenses

You may not include in medical expenses the cost of the following items, even if they are related to medical care—

A trip taken for a change in environment, improvement of morale, or general improvement of health, even if you make the trip on the advice of a doctor.

A part of car insurance premiums that provide medical insurance coverage for all persons injured in or by your car.

A weight loss program even if your doctor advises the program for your general health.

A program to stop smoking that you join at the suggestion of your doctor for the improvement of your general health.

Health club dues, YMCA dues, steam baths, or vacations for your general health or to relieve physical or mental discomfort that is not related to a particular disease or defect.

Household help, even if your doctor has recommended it because you are physically unable to do housework.

Funeral and burial expenses.

Social activities, such as dancing lessons, for the general improvement of your health, even if your doctor recommended these activities.

Reimbursed Expenses

You must reduce your total medical expenses for the year by the total reimbursements (repayments) you received from insurance or other sources for those expenses during the year. This includes payments you receive from Medicare. The reimbursement may be paid directly to you or to the doctor, hospital, etc.

Medicine and drug expenses must be reduced by any reimbursements you received for them. Add the part of the remainder that is more than 1% of your adjusted gross income to your other medical expenses that are subject to the 3% limit.

Medical expenses that are subject to the 3% limit must be reduced by any reimbursement you receive for them before the limit is applied.

Reimbursement in later year. If you are reimbursed for medical expenses you deducted in an earlier year, you must report as income the amount of your reimbursement that is equal to or less than the amount you previously deducted as medical expenses.

Medical expenses not deducted. If you did not deduct a medical expense in the year you paid it because you did not itemize your deductions or because your medical expenses were not more than the 3% limit, you should not include in taxable income the reimbursement for this expense received in a later year.

A more detailed discussion of the medical expense deduction is in Publication 502, *Medical and Dental Expenses.*

Deductible Taxes

Certain taxes imposed on you (charged to you) and paid by you during your tax year qualify as itemized deductions.

To be deductible, the tax must be one of the following:

Income tax (state, local, or foreign)

Real property tax (state, local, or foreign)

Personal property tax (state or local)

General sales tax (state or local)

You also may deduct state, local, and foreign taxes not listed above, if you pay them within the tax year in carrying on a trade or business or an activity for the production of income.

State or local taxes are those you pay to a state, a U.S. possession, a county or city of a state, or to the District of Columbia. Foreign taxes are taxes you pay to a foreign country or any of its political subdivisions.

Foreign income taxes you pay to a foreign country or U.S. possession may either be deducted as an itemized deduction or claimed as a credit against

your U.S. income tax. For information, see Publication 514, *Foreign Tax Credit for U.S. Citizens and Resident Aliens.*

Taxes imposed by the federal government are not deductible. Refunds of federal taxes are not income.

For a detailed discussion of deductible taxes, see Chapter 20 in Publication 17, *Your Federal Income Tax.*

Refunds of deductible taxes. If you received a refund in 1980 for taxes you paid in 1979 or an earlier year, you may have to report the refund as income on your federal income tax return.

Do not report the refund as income if it was for a tax you paid in a year for which you did not itemize deductions on Schedule A (Form 1040).

If the refund was for a tax you paid in a year for which you did itemize deductions on Schedule A, report all of the refund as income if the entire deduction in the year of payment resulted in a federal income tax savings.

If only part of the deduction resulted in a federal income tax savings, you need only report that part of the refund that resulted in the savings. If you need help in figuring this amount, contact an Internal Revenue office.

If you itemize deductions for 1980, do not reduce the deduction for taxes by any refund of those taxes for an earlier year.

Interest Expense

You may deduct interest you pay if you itemize deductions on Schedule A (Form 1040).

To deduct interest on a debt, you must be legally liable for that debt. You may not deduct payments you make for someone else if you were not legally liable to make them. Both the lender and the borrower must intend that the loan be repaid.

You must pay the interest before you may deduct it, unless you use the accrual method of accounting.

Interest paid in advance. If you pay interest in advance for a period that goes beyond the end of the tax year, you must spread the interest over the tax years to which it applies. You may deduct in each year only the interest for that year.

Home mortgage interest is a common type of personal interest. Monthly mortgage payments usually contain both principal (the repayment of the amount owed) and interest. You may only deduct the interest part. If your records do not show interest separately, you should get a statement from the lender who holds your mortgage, showing the exact amount of the interest you paid during the year.

Points paid by a borrower. The term "points" is sometimes used to describe the charges paid by a borrower. They are also called loan origination fees, maximum loan charges, or premium charges. If the payment of any of these charges is only for the use of money, it is interest.

You may fully deduct the amount you pay as points in the year of payment only if the loan is used to buy or improve your principal home. The loan must be secured by that home. The charging of points has to be an established business practice in your area. The deduction may not be more than the number of points generally charged in your area.

If these conditions are not met, points are treated as interest paid in advance. They must be spread over the life of the mortgage, and are considered as paid and are deductible over that period.

Points paid by a seller. The term "points" also is used to describe loan placement fees that the seller may have to pay to the lender to arrange financing for the buyer. You may not deduct these amounts as interest. But, these charges are a selling expense that reduce the amount realized in selling your home.

Reverse mortgage loans. A reverse mortgage loan is a loan that is based on the value of your home and is secured by a mortgage on your home. The lending institution pays you the loan in installments over a period of months or years. The loan agreement may provide that interest will be added to the outstanding loan balance monthly as it accrues. If you are a cash method taxpayer, you deduct the interest on a reverse mortgage loan when you actually pay it, not when it is added to the outstanding loan balance.

Interest on installment purchases. You may deduct your interest payments if they are separately stated, or if they can be determined and proved.

Revolving charge accounts. When you buy personal property such as clothing, jewelry, furniture, or appliances on the installment plan using a revolving charge account, there is usually a separate finance charge. You may deduct the total amounts of these finance charges as interest.

Credit card finance charges. You may deduct as interest the finance charges added to your monthly statement. The finance charges are figured at an annual percentage rate and are based on the unpaid monthly balances.

Bank credit card. You may deduct finance charges on your bank credit card account balance if no part of the charge is a service charge, loan fee, credit investigation fee, or similar charge.

One-time charges. You may deduct a one-time charge for each new cash advance and each new check and overdraft advance added to your bank

credit card account balance. No part of the charge can be a service charge, loan fee, credit investigation fee, or similar charge.

Late payment charge by a public utility. You may deduct as interest a late payment charge if it was not for a specific service the public utility did for you.

Discounted note interest. Sometimes the face value of your note is more than the amount you actually receive. This happens when the interest is subtracted from the face amount of the note and you receive the balance. If you use the cash method, you may deduct the interest only in the year you make payments. If you use the accrual method, you may deduct the interest as it accrues.

More information on deductible interest expenses is in Publication 545, *Interest Expense*.

Contributions

You may deduct contributions to ***qualified*** organizations if you itemize your deductions on Schedule A (Form 1040).

To deduct your contributions, you must make them in cash or other property before the close of your tax year. You may deduct contributions you charge to your bank credit card in the year the charge is made.

In general, your contributions deduction cannot be more than 50% of your adjusted gross income. In some cases the limit is 20% or 30% of adjusted gross income.

Qualified organizations. You may deduct a contribution you made to any of the following qualified organizations:

1) A state, a U.S. possession, a political subdivision of a state or possession, the United States, or the District of Columbia, if made only for public purposes,
2) A community chest, corporation, trust, fund, or foundation organized or created in the United States or its possessions, or under the laws of the United States, any state or possession, or the District of Columbia. The organization must be operated only for charitable, religious, educational, scientific, or literary purposes. It can also be for the prevention of cruelty to children or animals, or to foster national or international amateur sports competition. If an organization is involved in amateur sports competition, it cannot provide athletic facilities or equipment. Examples of these kinds of organizations include:

   Charitable nonprofit hospitals and medical research organizations,

   Churches, synagogues, or other religious organizations,

   Most educational organizations,
3) A war veterans' organization, including posts, auxiliaries, trusts, or foundations organized in the United States or its possessions,
4) A nonprofit volunteer fire company,
5) A civil defense organization created under federal, state, or local law. This includes unreimbursed expenses of civil defense volunteers if the expenses are directly connected with the volunteer services,
6) A domestic fraternal society operating under the lodge system, but only if the contribution is to be used exclusively for one or more of the charitable purposes described under (2),
7) A nonprofit cemetery company, if the funds can be used only for the perpetual care of the cemetery as a whole, and not a particular lot or mausoleum crypt.

Any organization can tell you if it is a qualified organization. Any Internal Revenue office also can tell you if the organization qualifies.

Out-of-pocket expenses. You may deduct some amounts that you pay in giving services without pay to a charitable organization.

These include amounts you pay for transportation from your home to the place where you serve and reasonable payments for necessary meals and lodging while you are away from home overnight giving your services to a qualified organization. However, you may not deduct the value of your time or services.

You may not deduct your expenses in attending a church convention if you go only as a member of your church rather than as a duly chosen representative. You may deduct unreimbursed expenses that are directly connected with the donated services you perform for your church during the convention.

Car expenses. You may deduct unreimbursed out-of-pocket expenses directly related to services you give to a charitable organization, such as expenses for gas and oil for your car. You may not deduct any part of general repair and maintenance expenses.

If you do not want to deduct your actual expenses, you may use a standard rate of 9 cents a mile to determine your contribution.

In either case, you may deduct parking fees and tolls. You may not deduct depreciation and insurance.

Deductible contributions are discussed in detail in Publication 526, *Charitable Contributions*.

Expenses of Producing Income

You may deduct certain expenses as miscellaneous deductions on Schedule A (Form 1040) if you

pay or incur them to produce or collect income, or to manage or protect property held for producing income.

The expenses must be directly related to the income or income-producing property, and the income must be taxable to you.

Certain legal and accounting expenses that are necessary to produce taxable income generally are deductible. These include:

1) Amounts you pay to have your tax return prepared,
2) Legal fees to collect taxable alimony, and
3) Legal fees directly related to your work, whether in doing your job or keeping your job.

Fees you pay to a broker, a bank, or a similar agent to collect your bond interest or dividends on shares of stock are deductible. But you may ***not*** deduct a fee you pay to a broker to buy investment property, such as stocks or bonds. You add the fee to the cost of the property.

Gambling losses are allowed as a miscellaneous deduction, but you may not deduct more than the gambling winnings you report on line 21, Form 1040. You must keep an accurate diary or similar record of your losses and winnings, and must be able to prove by receipt, ticket, or statement the amounts of your winnings and losses.

Safe deposit box rent is deductible if you use the box to store taxable income-producing stocks, bonds, or investment-related papers and documents. You may ***not*** deduct the rent if you use the box for jewelry or other personal items, or for tax-exempt securities.

Other Deductions

There are more items that you may claim as itemized deductions. These deductions are discussed in the following publications:

Tax Information on Disasters, Casualties, and Thefts, Publication 547; and

Miscellaneous Deductions, Publication 529, which includes information on deductions for employee expenses, expenses of producing income, and other miscellaneous deductions.

IRS Will Figure Your Tax for You

The Internal Revenue Service will figure your tax on either Form 1040 or Form 1040A.

The Internal Revenue Service will figure your tax in the way that will let you pay the lowest tax. If you paid too much, you will receive a refund. If you did not pay enough, you will receive a bill for the balance. You will not be charged interest or penalties if you pay the bill for the tax due within 30 days of the notice date, or by the due date for your tax return, whichever is later.

If you choose to have the Internal Revenue Service figure your tax, you may change this choice on an amended return filed after the original return.

Form 1040

You may choose to have the Internal Revenue Service figure your tax if:

1) All your income for 1980 was from one or more of the following:
   Wages and salaries
   Tips
   Interest
   Dividends
   Pension or annuities
2) Your income on line 31, Form 1040, is $20,000 or less ($40,000 or less if you are married filing a joint return or a qualifying widow or widower),
3) You do not itemize your deductions,
4) You do not use Schedule G, *Income Averaging,* or Form 2555, *Deduction from, or Exclusion of, Income Earned Abroad,* and
5) You mail your return by April 15, 1981.

Put your name and address label on your return. If you do not have a label, fill in your name, address, and social security number. Also fill in your occupation. On a joint return, show the names, social security numbers, and occupations of both you and your spouse. If you are married, give the social security numbers of both you and your spouse even though you file separately. If you are filing a joint return, show the social security numbers in the same order that you show your first names. Check the appropriate *Yes* or *No* box or boxes for the Presidential Election Campaign Fund question. Answer the revenue sharing residence questions.

Read the Form 1040 instructions for lines 1 through 31 and fill in the ones that apply to you. If you are filing a joint return, use the space under the words *Adjustments to Income* on the front of your return to show your adjusted gross income and your spouse's adjusted gross income separately.

Read the Form 1040 instructions for lines 38 through 61. Fill in the ones that apply to you, but do not fill in the *Total* lines.

Fill in any forms or schedules asked for on the lines you completed and attach them to your return when you file it.

If you can take the Credit for the Elderly, discussed later, attach Schedules R & RP to your Form 1040. Write "CFE" on line 39, Form 1040. On Schedule R,

check the box for your filing status and age, and fill in line 2(a). On Schedule RP, enter the name of the public retirement system. Also check the box for your filing status and age, and fill in lines 2 and 5.

If you can take the Earned Income Credit, discussed later, write "EIC" on line 57, Form 1040.

Be sure to sign and date your return. If you are filing a joint return, both you and your spouse must sign and date it. Mail your return to the Internal Revenue Service Center for the area where you live.

Form 1040A

If you file Form 1040A by April 15, 1981, you may have the Internal Revenue Service figure your tax regardless of the amount of your income.

Place your name and address label on your return or, if you do not have a label, fill in your name, address, and social security number. Also fill in your occupation. On a joint return, show the names, social security numbers, and occupations of both you and your spouse. If you are married, give the social security numbers of both you and your spouse even though you file separately. If you are filing a joint return, show the social security numbers in the same order that you show your first names. Check the appropriate *Yes* or *No* box or boxes for the Presidential Election Campaign Fund question. Answer the revenue sharing residence questions.

Read the Form 1040A instructions for lines 1 through 12a and fill in the ones that apply to you. If you are filing a joint return, show your adjusted gross income and your spouse's adjusted gross income separately in the space between lines 7 and 8. Attach your Forms W-2 to your Form 1040A.

If you can take the Earned Income Credit, discussed later, the Internal Revenue Service will figure the credit for you.

Sign and date your return. If you are filing a joint return, both you and your spouse must sign and date it. Mail the return to the Internal Revenue Service Center for the area where you live.

How to Figure Your Tax

How you figure your tax depends on which form you use and whether you itemize your deductions.

Form 1040A

If you file Form 1040A, you must find your adjusted gross income before you can figure your tax. Adjusted gross income (line 11, Form 1040A) is the total of your wages, salaries, tips, interest, dividends, and the taxable part of your unemployment compensation.

To find your tax, use the tax table for your filing status. The tax tables are shown in the instructions for your Form 1040A.

If you are:	Use:
Single	Tax Table A
Married filing jointly	Tax Table B
Married filing separately	Tax Table C
Head of household	Tax Table D

After you have found the correct tax table, read down the income column until you find your adjusted gross income as shown on line 11, Form 1040A. Then read across the line to the column headed by the number of exemptions claimed on line 6, Form 1040A. The amount shown is your tax. Enter it on line 14a, Form 1040A.

Note: The figures shown in the tax tables include the zero bracket amount and the deductions for your exemptions. You do not have to figure these amounts.

Form 1040

If you file Form 1040, you must find your tax table income before you can figure your tax. Sometimes, as discussed later under *Figuring Your Tax,* you must find your taxable income before you can figure your tax.

Tax Table Income

The amount of tax table income depends on whether you itemize your deductions. If you itemize your deductions, the amount of tax table income further depends on whether you ***choose*** to itemize or whether you ***must*** itemize.

If you do not itemize your deductions, your tax table income (line 34, Form 1040) is the same as your adjusted gross income.

Adjusted gross income (line 31, Form 1040) is the total of all your income minus any of the following adjustments:

Expenses that are ordinary and necessary to your trade or business,

Ordinary and necessary expenses and certain other deductions on property held for producing rents and royalties,

Outside salesperson's expenses in earning a salary, commission, or other compensation,

Certain employee business expenses, including travel, meals and lodging away from home; local transportation expenses; and moving expenses,

Certain losses on sales, exchanges, or other dispositions of property,

The capital gain deduction,

Payments by employees and self-employed persons to their own retirement plans,

Allowable depreciation and depletion by a life tenant or a beneficiary of a trust or estate if the depreciation or depletion is not deductible by the trust or estate,

Interest penalty on early withdrawal of funds from long-term savings deposits,

Alimony paid, and

The disability income exclusion.

No other deductions are allowed in figuring adjusted gross income. To claim any other deductions, you must itemize on Schedule A (Form 1040).

If you choose to itemize your deductions, your tax table income is your adjusted gross income minus your excess itemized deductions.

Excess itemized deductions (line 41, Schedule A (Form 1040)) is the amount of your itemized deductions that is more than the zero bracket amount for your filing status. See *You may choose to itemize your deductions*, earlier.

If you must itemize and your deductions are ***equal to or more than*** the zero bracket amount for your filing status, your tax table income is your adjusted gross income minus your excess itemized deductions. If your itemized deductions are ***less than*** the zero bracket amount for your filing status, you must use Part II of Schedule TC (Form 1040) and figure your tax table income as follows:

1) Subtract your total itemized deductions from your zero bracket amount.
2) Add the result in (1) to your adjusted gross income to find your tax table income. This is an adjustment you must make to figure your tax table income, because the figures shown in the tax tables and tax rate schedules include the zero bracket amount.

If you are:	Your zero bracket amount is:
Married filing jointly, or a qualifying widow or widower	$3,400
Single, or a head of household	$2,300
Married filing separately	$1,700

Figuring Your Tax

Most people will use the tax tables to figure their tax. However, you must use Part I of Schedule TC (Form 1040) to figure your taxable income and your tax if any of the following applies:

1) Your tax table income (line 34, Form 1040) is more than $20,000 and you are single, married filing separately, or a head of household, or
2) Your tax table income (line 34, Form 1040) is more than $40,000 and you are married filing jointly or a qualifying widow or widower, or
3) You claim four or more exemptions and you are single or married filing separately, or
4) You claim nine or more exemptions and you are a head of household, or
5) You claim ten or more exemptions and you are married filing jointly or a qualifying widow or widower, or
6) You use Schedule G, *Income Averaging*, to income average. If your income for 1980 was substantially greater than that of the 4 previous years, you may be able to figure your tax by using the income averaging method and pay less tax. For information, see Publication 506, *Income Averaging*, or
7) You use Form 4726, *Maximum Tax on Personal Service Income*.

Tax tables. If none of the items listed in (1) through (7) apply to you, you must use the tax tables. To find your tax, use the tax table for your filing status. The tax tables are in the instructions for your Form 1040.

If you are:	Use:
Single	Tax Table A
Married filing jointly, or a qualifying widow or widower	Tax Table B
Married filing separately	Tax Table C
Head of household	Tax Table D

After you have found the correct tax table, read down the income column until you find your tax table income as shown on line 34, Form 1040. Then read across to the column headed by the number of exemptions claimed on line 7, Form 1040. The amount shown is your tax. Enter it on line 35, Form 1040, and check the box marked *Tax Tables*.

Note: The figures shown in the tax tables include the zero bracket amount and the deductions for your exemptions. You do not have to figure these amounts.

Part I of Schedule TC (Form 1040). If you must use Part I of Schedule TC (Form 1040), you must figure your taxable income before you figure your tax.

Taxable income is your tax table income (line 34, Form 1040) minus the deduction for your exemptions. To figure the deduction for your exemptions, multiply $1,000 by the number of exemptions claimed on line 7, Form 1040.

Figure the tax on your taxable income by using Tax Rate Schedule X, Y, or Z, or use Schedule G or Form 4726, if it applies. Enter your tax on line 4, Part

I of Schedule TC and check the correct box. Also enter your tax on line 35, Form 1040, and check the box marked *Schedule TC*.

Example. Charles Blue, age 60 and single, retired from his job in 1976. His total income received in 1980, as shown on lines 9 through 22 of his Form 1040, is as follows:

Interest income (line 9, Form 1040)	$ 1,320
Dividends (line 10c, Form 1040)	880
Fully taxable pension (line 17, Form 1040)	12,000
Rental and royalty income (line 18, Form 1040)	8,000
Total income (line 22, Form 1040)	$22,200

Mr. Blue does not claim any adjustments to income, so his adjusted gross income (line 31, Form 1040) is $22,200. Mr. Blue decides that it is not to his advantage to itemize his deductions, so he enters $22,200 on line 32 and line 34 of his Form 1040. Now Mr. Blue must figure his tax. Because his income on line 34, Form 1040, is more than $20,000, he must use Part I of Schedule TC.

On lines 1, 2, and 3, Part I of Schedule TC, Mr. Blue figures his taxable income, $21,200. He figures his tax on this amount by using Tax Rate Schedule X. He enters his tax, $4,585, on line 4, Part I of Schedule TC and checks the box marked *Tax Rate Schedule X, Y, or Z*. He also enters $4,585 on line 35, Form 1040, and checks the box marked *Schedule TC*. See the filled-in Schedule TC.

Credit for Political Contributions

You may take a credit for ***half*** of your total contributions of money made during the tax year to a political candidate, campaign committee, newsletter fund, or a national, state, or local committee of a national political party. You claim the credit on line 38, Form 1040, or line 12a, Form 1040A. Your credit may not be more than $50 ($100 on a joint return). If you file Form 1040, your credit may not be more than the amount on line 37 minus the amount of credits on lines 39, 41, and 42. If you file Form 1040A, the credit may not be more than the tax on line 14a. Do not take this credit for the $1 or $2 amount you checked on your return to go to the Presidential Election Campaign Fund.

Political contributions. You may include political contributions you make during the year if the candidates announce that they are running for office before the end of the following calendar year. The contributions must be in money. They must be used to get the candidate nominated or elected to public office. You may include contributions to a national, state, or local committee of a national political party, or a campaign committee. You may also include contributions to a newsletter fund.

A newsletter fund is a fund set up and maintained by a person who holds, has been elected to, or is a candidate for nomination or election to public office. A contribution to a newsletter fund must be used by that person in preparing and circulating the newsletter.

You must have a written receipt to prove your contributions. Cancelled checks will in most cases meet the requirements for a written receipt. You also may

SCHEDULE TC (Form 1040)
Department of the Treasury
Internal Revenue Service

Tax Computation Schedule

▶ Attach to Form 1040.

1980

Name(s) as shown on Form 1040: CHARLES BLUE

Your social security number: 111 11 1111

Part I Computation of Tax for Taxpayers Who Cannot Use the Tax Tables

Use this part to figure your tax if:

- Your income on Form 1040, line 34, is more than $20,000 and you checked Filing Status Box 1, 3, or 4 on Form 1040.
- Your income on Form 1040, line 34, is more than $40,000 and you checked Filing Status Box 2 or 5 on Form 1040.
- You had more exemptions than were shown in the Tax Table for your filing status.
- You figure your tax using Schedule G (Income Averaging) or Form 4726 (Maximum Tax on Personal Service Income).

1 Enter the amount from Form 1040, line 34	1	22,200	00
2 Multiply $1,000 by the total number of exemptions claimed on Form 1040, line 7	2	1,000	00
3 **Taxable income.** Subtract line 2 from line 1. (Figure your tax on this amount by using the Tax Rate Schedules or one of the other methods listed on line 4.)	3	21,200	00
4 **Income tax.** Enter tax and check if from: ☑ Tax Rate Schedule X, Y, or Z, ☐ Schedule G, or ☐ Form 4726. Also enter on Form 1040, line 35	4	4,585	00

be required to prove that you made your contribution to a qualified political candidate, campaign committee, newsletter fund, or a national, state, or a local committee of a national political party, or that the purpose of the payment was to make a political or newsletter fund contribution.

You may not take a credit for contributions that are used for political activities not directly related to a nomination or election campaign.

Raffle tickets. The amount you pay a political candidate or campaign committee for a ticket for a raffle, lottery, or similar drawing for valuable prizes does not qualify for the credit.

Credit for the Elderly

You may claim this credit if you are 65 or older, or if you are under 65 and receive a taxable pension or annuity from a public retirement system. You figure the credit for the elderly on Schedules R & RP (Form 1040) and claim the credit on line 39, Form 1040. You may ***not*** take the credit if you file Form 1040A.

Persons Age 65 or Older

If you are 65 or older, you figure your credit on Schedule R (Form 1040).

Do You Qualify for the Credit?

You must be 65 or older before the end of the tax year to qualify. You are considered 65 on the day before your 65th birthday.

If you are 65 or older but your spouse is under 65 and receives a taxable pension or annuity from a public retirement system, you and your spouse may figure your credit on Schedule R, or you both may choose to figure your credit on Schedule RP. Schedule RP is discussed later under *Persons Under Age 65.* You should figure your credit on Schedule R and Schedule RP to see which gives you a larger credit.

Married taxpayers. If you are married at the end of the tax year, you and your spouse must file a joint return to claim the credit. However, if you and your spouse were not members of the same household at any time during the tax year, you may file either a joint return or separate returns and still take the credit.

You must be a U.S. citizen or resident to claim the credit. You may not claim the credit if you were a nonresident alien at any time during the tax year. However, if you are a nonresident alien who is married to a U.S. citizen or resident and you choose to file a joint return and be taxed on your worldwide income, you may claim the credit.

If you were a nonresident alien at the beginning of the year and a resident or citizen at the end of the year, and you were married to a U.S. citizen or resident at the end of the year, you may choose to be treated as a U.S. resident. See Publication 519, *U.S. Tax Guide for Aliens.*

You will not be able to claim the credit if:

- You are single, a head of household, or a qualifying widow or widower and receive $2,500 or more from nontaxable pensions and annuities, or have adjusted gross income of $12,500 or more, or
- You are married filing a joint return, only one of you is 65 or older, and together you receive $2,500 or more from nontaxable pensions and annuities, or have adjusted gross income of $15,000 or more, or
- You are married filing a joint return, both of you are 65 or older, and together you receive $3,750 or more from nontaxable pensions and annuities, or have adjusted gross income of $17,500 or more, or
- You are married filing a separate return and you and your spouse were not members of the same household at any time during the tax year, and you receive $1,875 or more from nontaxable pensions and annuities or have adjusted gross income of $8,750 or more.

Note: In addition, you will not be able to claim the credit, if the total of your nontaxable pensions and annuities plus your adjusted gross income limit is more than your initial amount of income used to figure your credit. These items are explained in the following part.

How to Figure the Credit

To figure your credit for the elderly on Schedule R you need to know the initial amount of income used to figure your credit, your nontaxable pensions and annuities, and your adjusted gross income limit.

The initial amount of income used to figure your credit is:

- $2,500 if you are single, a head of household, or a qualifying widow or widower, or
- $2,500 if you are married filing a joint return and only one of you is 65 or older, or
- $3,750 if you are married filing a joint return and both of you are 65 or older, or
- $1,875 if you are married filing a separate return and you and your spouse were not members of the same household at any time during the tax year.

Nontaxable pensions and annuities. You must reduce the initial amount of income used to figure your credit by the total amount of certain nontaxable payments received. If you are married filing a joint return, you must reduce the initial amount of income used to figure your credit by the total amount of

these nontaxable payments received by both you and your spouse.

Reduce the initial amount of income used to figure your credit by the total amount of the following:

Pension or annuity payments that are not taxed. Do not include amounts you received as workmen's compensation or accident and health benefits,

The monthly payments from a matured U.S. Government life insurance endowment contract. Do not include amounts you paid for the contract,

Railroad retirement pension payments. Do not include supplemental annuities,

Social security payments. This includes the gross amount of social security benefits before deducting any amounts that are withheld to pay premiums on supplementary Medicare insurance. Do not include a lump-sum death benefit payment you may receive as a surviving spouse, or a surviving child's insurance benefit payments you may receive as a guardian. If you are married filing a separate return and either you or your spouse or both of you live in a community property state, your social security benefits will be separate or community property as determined by the community property laws of that state.

Do not reduce the initial amount of income used to figure your credit by any of the following:

Amounts that are treated as a return of your cost of an annuity or pension,

Compensation for injury or sickness,

Disability pensions, including Veterans Administration service-connected disability compensation,

Payments from accident or health insurance policies,

Basic or supplementary Medicare benefits,

Amounts paid by or for an employer to the estate or to the beneficiaries of an employee,

Amounts received by beneficiaries of an employees' trust,

Death compensation paid by the Veterans Adminstration to the surviving spouse of a veteran who died from sickness or injury incurred in active service,

Life insurance payments received when the insured person dies, including the amount discussed under *Insurance Received in Installments* in Publication 550, *Investment Income and Expenses.*

Adjusted gross income limit. You must reduce the initial amount of income used to figure your credit if your adjusted gross income (line 32, Form 1040) is more than:

$7,500 if you are single, a head of household, or a qualifying widow or widower, or

$10,000 if you are married filing a joint return, or

$5,000 if you are married filing a separate return and you and your spouse were not members of the same household at any time during the tax year.

If your adjusted gross income is more than the amount shown for your filing status, you figure your adjusted gross income limit on lines 2b through 2e of Schedule R.

Schedule R

If you are 65 or older, use Schedule R to figure your credit for the elderly. Put your name and social security number in the space at the top of Schedule R.

Complete Schedule R in the following way:

Check the filing status and age box that applies to you.

Enter on line 1 the initial amount of income used to figure your credit.

Enter on line 2a the total amount of nontaxable pensions and annuities you receive. If you are married filing a joint return, the amount you enter on line 2a is the total amount of these nontaxable items both you and your spouse receive.

Enter on line 2b the amount from line 32, Form 1040.

On line 2c enter $7,500 if you checked box A; $10,000 if you checked box B or C; or $5,000 if you checked box D.

Subtract line 2c from line 2b and enter the result on line 2d. If line 2c is more than line 2b, enter zero on line 2d.

On line 2e enter half of line 2d.

Add lines 2a and 2e. Enter this amount on line 3 and subtract it from line 1. Enter the result on line 4.

Multiply line 4 by 15% and enter the result on line 5.

Enter on line 6 the tax shown on line 37, Form 1040. Your credit cannot be more than your tax.

Enter on line 7 the amount from line 5 or line 6, whichever is less. This is your credit. Enter it on line 39, Form 1040. Be sure to attach Schedule R to your Form 1040 when you file your return.

Schedule R is shown in the *Sample Return* at the end of this publication.

Example 1. John Ash is single and 68 years old. He receives the following income for the year:

Social security pension	$1,920
Interest (taxable)	215
Pension (taxable part)	3,600
Wages from a part-time job	4,045

John's adjusted gross income is $7,860 ($4,045 + $3,600 + $215) and his tax on line 37, Form 1040, is $580. John figures the credit as follows:

Initial amount of income used to figure his credit		$2,500
Subtract the total of:		
Nontaxable pensions and annuities (social security pension)	$1,920	
Adjusted gross income limit (($7,860 − $7,500) ÷ 2)	180	2,100
Balance		$ 400
Tentative credit (15% of $400)		$ 60
Tax from line 37, Form 1040		$ 580
Credit for the Elderly		$ 60

John's credit is $60, because that is less than the $580 tax on line 37 of his Form 1040.

Example 2. You are 66 years old and your spouse is 64. Neither you nor your spouse receive a taxable pension or annuity from a public retirement system. You file a joint return on Form 1040. Your adjusted gross income is $9,630 and your tax on line 37, Form 1040, is $474. Together you receive $1,900 from social security. You figure the credit as follows:

Initial amount of income used to figure your credit		$2,500
Subtract the total of:		
Nontaxable pensions and annuities (social security pension)	$1,900	
Adjusted gross income limit	-0-	1,900
Balance		$ 600
Tentative credit (15% of $600)		$ 90
Tax from line 37, Form 1040		$ 474
Credit for the Elderly		$ 90

You do not deduct any of your adjusted gross income from the initial amount of income used to figure your credit because your adjusted gross income is less than $10,000. Your credit is $90, because that is less than the $474 tax on line 37 of your Form 1040. Enter $90 on line 39, Form 1040.

Persons Under Age 65

If you are under 65, you figure your credit on Schedule RP (Form 1040).

Do You Qualify for the Credit?

You must be under 65 at the end of the tax year and receive a taxable pension or annuity from a public retirement system. The taxable pension or annuity you receive from a public retirement system must result from your services or from the services of your spouse. You are considered 65 on the day before your 65th birthday.

Spouse 65 or older. If you are under 65 and receive a taxable pension or annuity from a public retirement system but your spouse is 65 or older, you and your spouse may figure your credit on Schedule R, or you both may choose to figure your credit on Schedule RP. If you are married filing a joint return, you make this choice by checking filing status and age box B on Schedule RP. If you are married filing a separate return, you make this choice by checking filing status and age box D, if you are the spouse under 65, or box E, if you are the spouse 65 or older.

You should figure your credit on Schedule R and on Schedule RP to see which gives you a larger credit.

Married taxpayers. If you are married at the end of the tax year, you and your spouse must file a joint return to claim the credit. If you and your spouse were not members of the same household at any time during the tax year, you may file either a joint return or separate returns and still take the credit. However, if you are under 65 and had income from a public retirement system and your spouse is 65 or older, you may not use Schedule RP unless your spouse also chooses to use Schedule RP.

Community property. Married persons filing a joint return should disregard community property laws when figuring the credit for the elderly on Schedule RP. The total of all taxable and nontaxable income used in figuring the credit is considered that of the person who earned the income.

You must be a U.S. citizen or resident to claim the credit. You may not claim the credit if you were a nonresident alien at any time during the tax year. However, if you are a nonresident alien who is married to a U.S. citizen or resident and you choose to file a joint return and be taxed on your worldwide income, you may claim the credit.

If you were a nonresident alien at the beginning of the year and a resident or citizen at the end of the year, and you were married to a U.S. citizen or resident at the end of the year, you may choose to be treated as a U.S. resident. See Publication 519, *U.S. Tax Guide for Aliens.*

How to Figure the Credit

To figure your credit for the elderly on Schedule RP you need to know the maximum amount of retirement income used to figure your credit, your nontaxable pensions and annuities, your earned income, and your retirement income.

The maximum amount of retirement income used to figure your credit is:

$2,500 if you are single, a head of household, or a qualifying widow or widower, or

$1,875 if you are married filing a separate return and you and your spouse were not members of the same household at any time during the tax year, or

$3,750 if you are married filing a joint return.

Note: If you are married filing a joint return, the $3,750 ***must be divided*** between you and your

spouse as you may agree, but no more than $2,500 may be used by either of you. You should divide the $3,750 between you in the way that gives you the largest credit.

Nontaxable pensions and annuities. You must reduce the maximum amount of retirement income used to figure your credit by the total amount of certain nontaxable payments received.

Reduce the maximum amount of retirement income used to figure your credit by the total of the following:

Pension or annuity payments that are not taxed. Do not include amounts you received as workmen's compensation or accident and health benefits,

The monthly payments from a matured U.S. Government life insurance endowment contract. Do not include amounts you paid for the contract,

Railroad retirement pension payments. Do not include supplemental annuities,

Social security payments. This includes the gross amount of social security benefits before deducting any amounts that are withheld to pay premiums on supplementary Medicare insurance. If you and your spouse receive monthly social security payments in one check made payable to both, you should subtract only your part of the payment and your spouse should subtract only his or her part of the payment. Do not include a lump-sum death benefit payment you may receive as a surviving spouse, or a surviving child's insurance benefit payments you may receive as a guardian.

Do not reduce the maximum amount of retirement income used to figure your credit by any of the following:

Amounts that are treated as a return of your cost of an annuity or pension,

Compensation for injury or sickness,

Disability pensions, including Veterans Administration service-connected disability compensation,

Payments from accident or health insurance policies,

Basic or supplementary Medicare benefits,

Amounts paid by or for an employer to the estate or to the beneficiaries of an employee,

Amounts received by beneficiaries of an employees' trust,

Death compensation paid by the Veterans Administration to the surviving spouse of a veteran who died from sickness or injury incurred in active service,

Life insurance payments received when the insured person dies including the amount discussed under *Insurance Received in Installments* in Publication 550, *Investment Income and Expenses.*

Earned income received. If you are under 72, you may have to subtract part of your earned income from the maximum amount of retirement income used to figure your credit.

If you are under 62, subtract your earned income that is more than $900.

If you are 62 or older but under 72, and:

1) Your earned income is more than $1,200 but not more than $1,700, divide your earned income that is more than $1,200 by 2 and subtract this amount, or
2) Your earned income is more than $1,700, subtract your earned income that is more than $1,450.

If you are 72 or older by the end of the year, the earned income limit does not apply to you.

Earned Income

Earned income is wages, salaries, professional fees, and other amounts you receive as compensation for personal services.

Even if the income is not taxed, it is earned income if it otherwise qualifies. For example, income earned abroad is earned income even though you may be able to exclude it from taxable income.

If you are in a profession, trade, or business in which both your services and capital (money or property) are important in producing the income, a reasonable amount, but not over 30%, of your net profit is earned income. If your services are not used to produce the income, none of your net profit is earned income.

If capital is not important in producing the income in your business and all of your profits are from your services, your net profit from self-employment is earned income. This generally applies to self-employed people who do not require inventories, such as house painters, plumbers, and barbers. It also applies to doctors, dentists, and other professionals, even if they invest a large amount of capital in office and professional equipment, because the professional fees they receive are for their professional services.

Interest, dividends, royalties, pensions, annuities, and capital gains generally are not earned income.

Disability annuity payments. If you are under 65 at the end of your tax year, disability annuity payments you receive may be earned income. See *Disability annuity payments,* under *Retirement Income.*

Rental income generally is not earned income. However, if you perform services that are an important part of producing the rental income, you include as earned income up to 30% of your net profit (not gross rent) from the rental property. Thus, if you repair and maintain property, or provide services to the

tenants, your services may be an important part of producing the rental income. However, if you do not provide services, no part of your rental income is earned income.

Example. You are 65 and your spouse is 62. Because your spouse receives a pension from a public retirement system, you and your spouse choose to figure your credit on Schedule RP. During the year, you receive $6,480 in rent from property. Your expenses, including depreciation, are $3,100, leaving you a net profit of $3,380. If you take 25% of your net profit as earned income, your earned income is $845 (25% of $3,380). The balance of your gross rent, $5,635, is retirement income.

Retirement Income

If you use Schedule RP, you must determine whether you have retirement income during the year. Retirement income includes different items for those persons who are under 65, and for those who are 65 or older.

If you are under 65, retirement income includes only the taxable part of a pension or annuity that you receive from a public retirement system.

Public retirement systems are established by the United States, a state, a territory, or a possession of the United States, their political subdivisions, or the District of Columbia. Retired federal, state, or local government employees, armed forces personnel, public school teachers, and members of the police and fire departments are under public retirement systems. Fleet reserve members of the Navy and Marine Corps who draw retainer pay are under a public retirement system.

Survivor annuity payments from a public retirement system are retirement income.

Disability annuity payments. If you retired on disability under a public retirement system and are under 65 at the end of your tax year, your disability annuity payments may be earned income and not retirement income. Disability annuity payments are earned income unless they are for periods after the date on which you reach minimum retirement age (the age at which you may retire whether or not you are disabled) and:

1) You received the payments for a period after you reached mandatory retirement age (the age set by your employer at which you must retire), or
2) You were not permanently and totally disabled when you retired, or
3) You have chosen to treat your disability income as a pension or annuity. Once you make this choice, you may not change it.

See Publication 522, *Disability Payments,* for information on the disability income exclusion.

If you are 65 or older before the end of your tax year, your retirement income includes the following:

Ordinary dividends, but only the taxable part,

Interest income if it is taxable,

Gross rents that are not earned income,

Your distributive share of a partnership's taxable income from interest, dividends, and rents. Your retirement income includes your distributive share of partnership gross rents and not just your share of net income from rents,

Your share of taxable interest, dividends, and rents from an estate or trust,

The taxable part of pension and annuity income, including amounts received by a self-employed individual from a qualified trust,

Income from certain U.S. bonds bought under a qualified retirement or pension plan,

Income from qualifying individual retirement arrangements (IRA's).

Retirement income does not include:

Capital gain distributions from a mutual fund,

Wages, salaries, and other earned income,

Income from your business,

Royalties from literary, musical, or artistic works, letters and memoranda, and similar properties, or royalties from an invention, or from oil, gas, and mineral properties.

Schedule RP

If you are under 65 and receive a taxable pension or annuity from a public retirement system, use Schedule RP to figure your credit for the elderly. Put your name and social security number in the space at the top of Schedule RP.

Complete Schedule RP in the following way:

Enter the name of your public retirement system. If you are married filing a joint return, enter the name of the public retirement system of the spouse under 65. If both you and your spouse are under 65 and receive a taxable pension or annuity from a public retirement system, enter the names of both public retirement systems and identify the husband's with (H) and the wife's with (W).

Check the filing status and age box that applies to you.

Enter on line 1 your maximum amount of retirement income used to figure your credit.

Enter on line 2a the amount of your nontaxable pensions and annuities. On line 2b, enter the amount of your excess earned income.

Add lines 2a and 2b. Enter this amount on line 3 and subtract it from line 1. Enter the result on line 4.

Enter the amount of your retirement income on line 5a if you are under 65, or on line 5b if you are 65 or older.

Enter on line 6 either the amount from line 4 or your retirement income from line 5a or 5b, whichever is less.

Add the amounts on line 6, columns (a) and (b), and enter the total on line 7.

Multiply line 7 by 15% and enter the result on line 8.

Enter on line 9 the tax shown on line 37, Form 1040. Your credit cannot be more than your tax.

Enter on line 10 the amount from line 8 or line 9, whichever is less. This is your credit. Enter it on line 39, Form 1040. Be sure to attach Schedule RP to your Form 1040 when you file your return.

Example 1. Bill White is 65. His wife Helen, 58, receives a taxable pension of $2,075 from a public retirement system. Neither Bill nor Helen receives a nontaxable pension or annuity. Their joint return shows adjusted gross income of $20,374.33 and tax on line 37 of $2,595.

Bill and Helen would have no credit for the elderly if they used Schedule R to figure the credit for persons 65 or older, because their adjusted gross income is not less than $15,000. Instead they choose to figure their credit on Schedule RP, because Helen is under 65 and receives a pension from a public retirement system. They make the choice by checking box B on Schedule RP.

Bill and Helen must divide the $3,750 maximum amount of retirement income used to figure their credit. Because Bill's earned income is high, they decide that Helen will use $2,500 and that Bill will use the remaining $1,250. They enter these amounts on line 1 in column (a) for Bill and column (b) for Helen.

They enter "O" on line 2a because they do not receive any nontaxable pensions or annuities. On line 2b they enter the earned income that is in excess of the maximum amount allowed.

Bill's earned income is as follows:

Salary	$10,284.20
Excess reimbursement from employer	125.00
Photography contest prize	50.00
Jones Partnership (capital is important in producing the income) 30% of $4,642.50	1,392.75
	$11,851.95

Because Bill is over 62 and under 72, he subtracts $1,450 from his earned income of $11,851.95 and enters the balance of $10,401.95 on line 2b(ii).

Helen has earned income of $1,400 from the Gateway Travel Agency partnership. Since she is under 62, she subtracts $900 from her earned income of $1,400 and enters the balance of $500 on line 2b(i).

Bill subtracts the $10,401.95 from the $1,250 on line 1 and shows a zero balance on line 4. He does not complete the rest of the lines in column (a).

Helen subtracts the $500 from the $2,500 on line 1 and shows the balance, $2,000, on line 4. On line 5a she enters her retirement income of $2,075. She enters $2,000 on line 6, because this is less than her retirement income.

Bill and Helen complete Schedule RP. They figure a credit for the elderly of $300 (15% of $2,000). Because this is less than the tax shown on line 37, Form 1040, they enter it on line 10, Schedule RP, and on line 39, Form 1040. Bill and Helen's Schedule RP is shown in this publication.

Example 2. Jane Oak, 63 and single, is a retired federal employee. Her retirement annuity is $7,180 and is fully taxable. She does not receive any nontaxable pensions or annuities. Jane has $1,600 earned income from a part-time job. Her adjusted gross income is $8,780 and her tax on line 37, Form 1040, is $934. She figures her credit as follows:

Maximum amount of retirement income used to figure her credit		$2,500
Subtract the total of:		
Nontaxable pensions and annuities	$-0-	
Excess earned income (($1,600 − $1,200) ÷ 2)	200	200
Balance		$2,300
Retirement income		$7,180
Tentative credit (15% of $2,300)		$ 345
Tax from line 37, Form 1040		$ 934
Credit for the Elderly		$ 345

Residential Energy Credit

The law provides certain tax incentives (credits) to encourage energy saving and the development of renewable energy sources. The residential energy credit, which may be claimed by individuals, is discussed in this part. For information on energy credits for businesses, see Publication 572, *Investment Credit.*

Two energy credits make up the residential energy credit, each with its own conditions and limits. These credits are based on:

1) Costs for home energy conservation, and

2) Costs for renewable energy source property.

The cost of the items includes the cost of installing them.

You must reduce the basis of your home by the amount of residential energy credit allowed. The item for which you take the credit should be added to the basis of the home.

Name(s) as shown on Form 1040: BILL AND HELEN WHITE | Your social security number: 111 : 11 : 1111

Schedule RP **Credit for the Elderly—For People Under 65 Who Had Pension or Annuity Income from a Public Retirement System** 22

If you are under 72 and received nontaxable pensions (social security, etc.) of $2,500 or more or your earned income (salaries, wages, etc.) was $3,950 or more, you cannot take the credit for the elderly. Do not file this schedule.

Name(s) of public retirement system(s): HOMETOWN NEW YORK RETIREMENT SYSTEM

Filing Status and Age (check only one box)

- A ☐ Single, under 65
- B ☑ Married filing joint return, one spouse is under 65, and that person had income from a public retirement system. (If you checked this box and had community property income, see Community Property Income on page 24 of the instructions.)
- C ☐ Married filing joint return, both under 65. (If you checked this box and had community property income, see Community Property Income on page 24 of the instructions.)
- D ☐ Married filing separate return, under 65, and did not live with your spouse at any time in 1980.
- E ☐ Married filing separate return, 65 or over, did not live with your spouse at any time in 1980, and you are joining with your spouse in electing to use Schedule RP.

RP

Column (b)—Fill out column (b) whether you file a separate or joint return.
Column (a)—Fill out column (a) if you file a joint return. Use it only to show amounts for:
- The wife, if both of you were under 65, or
- The spouse who was 65 or over.

		(a)		(b)	
1 Enter: $2,500 if you checked box A; $3,750 if you checked box B or C. Allocate this amount between you and your spouse, but do not enter more than $2,500 for either of you. It will generally be to your benefit to allocate the greater amount to the spouse with more retirement income; $1,875 if you checked box D or box E	1	1,250	00	2,500	00
2 Enter:					
a Amounts you received as pensions or annuities under the Social Security Act or under the Railroad Retirement Acts (but not supplemental annuities), and certain other exclusions from gross income (see instructions). If none, enter zero	2a	-0-		-0-	
b Earned income such as wages, salaries, fees, etc. you received (does not apply to people 72 or over). (See page 24 of instructions for definition of earned income.):					
(i) If you are under 62, enter earned income that is over $900	2b(i)			500	00
(ii) If you are 62 or over but under 72, enter an amount that you will figure as follows: If earned income is $1,200 or less, enter zero. If earned income is over $1,200 but not over $1,700, enter one-half of the amount over $1,200. If earned income is over $1,700, enter the amount over $1,450	2b(ii)	10,401	95		
3 Add lines 2a and 2b	3	10,401	95	500	00
4 Subtract line 3 from line 1. (If the result for either column is more than zero, go on. If the result for either column is zero or less, do not complete the rest of the lines in that column. If the result for both columns is zero or less, you cannot take the credit; do not file this schedule.)	4	-0-		2,000	00
5 Retirement income:					
a **If under 65—** Enter only income from pensions and annuities under public retirement systems (e.g. Federal, State Governments, etc.) that you received as a result of your services or services of your spouse that you reported as income. Do not enter social security, railroad retirement or certain other payments reported on line 2a	5a			2,075	00
b **If 65 or over—** Enter total of pensions and annuities, interest, dividends, proceeds of retirement bonds, and amounts you received from individual retirement arrangements and individual retirement annuities that you reported as income, and gross rents from Schedule E, Part II, column (b), line 8. Also include your share of gross rents from partnerships and your share of taxable rents from estates and trusts	5b				
6 Enter amount from line 4 or line 5, whichever is less	6			2,000	00
7 Add amounts in columns (a) and (b) of line 6. Enter total here ▶	7			2,000	00
8 Multiply line 7 by 15% (.15)	8			300	00
9 Enter amount of tax from Form 1040, line 37. (If this amount is zero, you cannot take the credit; do not file this schedule.)	9			2,595	00
10 Enter the amount from line 8 or line 9, above, whichever is less. This is your **Credit for the Elderly.** Enter the same amount on Form 1040, line 39 ▶	10			300	00

Owners and renters of homes are eligible for the credit, if they actually pay for the qualifying items.

If you own or rent your home jointly with others, the overall limits on qualifying costs apply to the combined costs of all the owners or renters. If the actual amount spent is more than the limits, the maximum credit must be divided among the joint owners or renters based on the part of the total costs that each paid. The fact that one joint occupant may be unable to claim all or part of the credit, either because of insufficient tax liability or because of not meeting the $10 minimum credit (discussed later), has no effect on the computation of the credit for the other joint occupants.

Business use of home. If more than 20% of the use of an energy-saving or renewable energy source item is for business purposes, you must divide the costs for the item between the business use and the residential use. Only the costs for the residential use qualify for the credit.

Home energy conservation costs. You may take a credit of 15% of the first $2,000 you spend on items to save energy in your home. An item is eligible for the credit when the original installation of the item is completed. The full $2,000 of energy-saving items need not be installed in a single tax year.

A new $2,000 limit applies if you move to another home. This is so even if you spend $2,000 for energy conservative costs on your present principal home. The $2,000 limit applies to ***each*** principal home in which you later live.

Principal home (residence). The home on which you install the qualified energy-saving items must be your principal home and must be located in the United States. It must have been substantially completed before April 20, 1977. To qualify for the credit, a home is considered your principal home beginning 30 days before you live in it.

The energy-saving items you install must be new, must be expected to last at least 3 years, and must meet performance and quality standards to be set by the Secretary of the Treasury. However, items you buy before the performance and quality standards are published do not have to meet these standards.

Qualifying energy-saving items are limited to the following:

Insulation designed to reduce heat loss or heat gain in a home or in a water heater

Storm or thermal windows or doors for the exterior of the home

Caulking or weather stripping of exterior doors or windows

Clock thermostats or other automatic energy-saving setback thermostats

Furnace replacement burners, modified flue openings, and ignition systems that replace a gas pilot light

Meters that display the cost of energy use

Items that do not qualify for the credit include heat pumps, fluorescent lights, wood- or peat-burning stoves, replacement boilers and furnaces, and hydrogen-fueled equipment.

For definitions of energy-saving items, see Publication 903, *Energy Credits for Individuals.*

Renewable energy source costs. You may receive an additional energy credit for amounts you spend on solar, wind-powered, or geothermal property for your home. You figure this credit for years beginning after 1979 by taking 40% of the first $10,000 of these costs. An item qualifies for the credit when the original installation of the property is completed. As in the case of energy conservation costs, the full $10,000 limit on renewable energy source costs may be spread over several tax years. A new $10,000 limit applies for each principal home you live in during the period of the credit.

Principal home (residence). Renewable energy source equipment, such as solar collectors, windmills, or geothermal wells, must be installed for use with your principal home, which must be located in the United States. Unlike the credit for energy conservation costs, you may claim the credit for renewable energy source equipment for items installed for use with new, as well as existing, homes. It does not matter when your home was constructed, as long as the renewable energy source property was installed after April 19, 1977.

However, if renewable energy source property is installed during construction or reconstruction of a home, the property qualifies for the credit when you first live in the home as your principal home. But if you reoccupy a reconstructed home that you had lived in as your principal home before the reconstruction, the renewable energy source property is eligible for the credit when it is installed. "Reconstruction" is the replacement of most of the major structures of a home, such as floors, walls, and ceilings.

For purposes of the credit, a home is considered your principal home beginning 30 days before you live in it.

The renewable energy source property, to qualify, must be new, must be expected to last at least 5 years, and must meet certain performance and quality standards to be set by the Secretary of the Trea-

sury. However, the property does not have to meet the standards if you buy it before the standards are published.

The cost of renewable energy source equipment includes labor cost properly allocable to the on-site preparation, assembly, or installation of the equipment. It also includes the cost of drilling an on-site geothermal well after 1979, provided you do not choose to deduct any part of the cost as an intangible drilling and development cost.

Renewable energy source property includes the following:

Solar energy equipment for heating or cooling the home or for providing hot water or (after 1979) electricity for use within the home

Wind energy equipment for generating electricity or other forms of energy for personal home use

Geothermal energy equipment

For definitions of renewable energy source property, see Publication 903.

How to claim the credit. You claim the credit on line 45 of your Form 1040 for 1980. Figure the amount of credit on Form 5695, *Energy Credits*, and attach it to your return. In figuring your credit, include the cost of eligible items. You may not claim an energy credit on Form 1040A.

You should keep a copy of each Form 5695 that you file. If you sell your principal home, you will need to know the amount of credit claimed in earlier tax years.

Figuring the credit for more than one principal home. If you live in one home and during the year you move to another home, you may take an energy credit for each home. Fill out Part I and Part II as applicable on a separate Form 5695 for each home. Enter the total from all Forms 5695 on line 15 of one of the forms and complete Part III. In the space above line 15, write "More than one principal residence."

$10 minimum. Your residential energy credit must be at least $10 in any one year before you can claim it. This $10 minimum applies ***before*** you consider the limit to tax described in the next paragraph. The minimum applies to joint and separate returns.

The credit may not be more than your tax. It is limited to the tax on line 37, Form 1040, minus the credits on lines 38 through 44.

Carryover of unused credit. You may carry over an unused credit (that you did not use because it was more than your tax) to the next tax year. An unused credit may continue to be carried over to later tax years through 1987. For a fiscal year filer, an unused credit may be carried over through the fiscal year beginning in 1987.

If your energy credit is less than $10 for this year before applying the tax liability limitation, you may not carry it over to the next year.

Alternative minimum tax. You may carry over an energy credit for which you received no benefit because of the alternative minimum tax. For information on this carryover, see Publication 525, *Taxable and Nontaxable Income.*

For more information on the residential energy credit, see Publication 903, *Energy Credits for Individuals.*

Credit for Child and Disabled Dependent Care

You may be able to take a credit for payments you make for child and disabled dependent care while you and your spouse work part or full time or look for work.

You may be allowed the credit if you keep up a home for a dependent child under age 15, or your spouse or dependent who cannot care for himself or herself.

The credit is 20% of employment-related expenses (up to certain limits) that you pay during the tax year.

For information, see Publication 503, *Child and Disabled Dependent Care.*

Earned Income Credit

The earned income credit is an amount you may be able to subtract from your tax. You may be able to get a refund if your credit is larger than your tax, or if your tax is zero, even if you had no tax withheld from your pay. The credit can be as much as $500.

You cannot take the credit if you are filing your return using the single filing status or the married filing separate return status.

If you answer *Yes* to the following questions, you probably can take the credit.

1) Is your adjusted gross income, line 11, Form 1040A, or line 31, Form 1040, less than $10,000?
2) Did you receive any wages, salaries, tips, or other earned income?
3) Are you married filing a joint return and did you and your spouse live in the same principal home as your dependent child, or are you a qualifying widow or widower and did you maintain the same principal home for you and a dependent child, or are you a head of household and did you maintain the same principal home for you and an unmarried child or a married dependent child? Your child is considered to have lived in your home for the entire year if the child was born during the year or died during the year.
4) Was your principal home in the United States?

For more information, see Publication 596, *Earned Income Credit.*

Estimated Tax

If the amount you owe the Internal Revenue Service in 1980 (line 66, Form 1040, or line 17, Form 1040A) is large or if in 1981 you expect to receive income not subject to withholding, you may have to file a declaration of estimated tax.

Your estimated tax is the total of your expected income tax and self-employment tax for 1981 minus your expected withholding and credits.

Who Must File a Declaration

You must file a declaration of estimated tax using Form 1040-ES, *1981 Declaration-Voucher,* if your estimated tax (including self-employment tax) is ***$100 or more*** and:

1) Your expected gross income for 1981 includes more than $500 in income not subject to withholding, or
2) Your expected gross income is more than—
   a) $20,000 if you are single, a head of household, or a qualifying widow or widower, or
   b) $20,000 if you are married, entitled to file a joint declaration, and your spouse has not received wages for 1981, or
   c) $10,000 if you are married, entitled to file a joint declaration, and both of you have received wages for 1981, or
   d) $5,000 if you are married and not entitled to file a joint declaration.

If you are retired, or soon will retire, you may need to file a declaration of estimated tax. However, instead of filing a declaration, you may have income tax withheld from your pension or annuity. See *Estimated tax* under *Pensions and Annuities,* earlier in this publication.

When to File and Pay

Your declaration of estimated tax for 1981 must be filed by April 15, 1981, the same date your 1980 income tax is due. You may pay the estimated tax in four equal installments or you may pay the full amount when you file your declaration. Pay your first installment with the declaration.

If you pay in installments, you must pay one-fourth of the estimated tax by April 15, 1981, when you file your declaration. The remaining three installments are due by June 15, 1981, September 15, 1981, and January 18, 1982. As each installment becomes due, send the payment along with the declaration-voucher included in your Form 1040-ES to the Internal Revenue Service Center for the area where you live. Addresses are shown in the instructions on the form. Be sure to include your social security number on each voucher. Your check or money order should be made payable to the *Internal Revenue Service* and should include your social security number, form number *(1040-ES)* and tax year *(1981).*

If you file your income tax return for 1981 by February 1, 1982, you may skip the January 18, 1982 installment of estimated tax and pay the balance of income tax due when you file your return.

For more information, see Publication 505, *Tax Withholding and Estimated Tax.*

IRS Toll-Free Numbers

For answers to your federal tax questions, a nationwide system allows you to call your Internal Revenue office toll free, no matter where you live in the country.

To make sure that courteous and correct answers are given to taxpayers, a second Internal Revenue Service employee sometimes listens in on telephone calls. No record is kept of any taxpayer's name, address, or social security number.

The toll-free numbers are listed in the instructions for Form 1040 and Form 1040A.

Deaf or hearing impaired taxpayers who have access to TV/Telephone-TTY equipment can receive toll-free phone service. Residents of Indiana should call 1-800-382-4059. Residents of all other states, the Virgin Islands, and Puerto Rico should call 1-800-428-4732.

How To Avoid Common Errors On Your Tax Return

Before you mail your income tax return, check it over. Be sure you:

1) Transfer the address label from the tax return package you received in the mail to your Form 1040 or Form 1040A and make any necessary corrections to your name, address, and social security number. Be sure to use the label from your federal tax return package and not the one that came with your state tax return, and
2) Attach the first copy or Copy B of all your Forms W-2, W-2P, etc., to the front of your Form 1040 or Form 1040A, and
3) Attach all schedules in alphabetical order and forms other than Forms W-2 in numerical order to the back of your Form 1040, and
4) Put all income, deductions, and credits on the correct lines, and
5) Recheck your return to make sure you have made no mistakes in arithmetic, and

6) Use the correct tax table or tax rate schedule, and
7) Sign your return. On a joint return both you and your spouse must sign. Any person you pay to prepare your return must also sign it as the preparer and show his or her identification number, and
8) Attach your check or money order for any balance due. Make your check out to the *Internal Revenue Service*, and be sure to put your social security number, tax form number *(Form 1040)*, and tax year *(1980)* on the check, and
9) Send your return to the Internal Revenue Service Center for your area. Use the addressed envelope that came with your tax return package. If you do not have an addressed envelope or if you moved during the year, mail your return to the Internal Revenue Service Center serving the area where you now live. All addresses are listed in the instructions for your Form 1040 or Form 1040A.

Sample Return

George and Josephine Green are married. Their financial transactions during the year are shown on the tax forms in the sample return.

George and Josephine were sent a Form 1040 tax package for 1980. The forms they received were based on the return and schedules they filed last year. They use the order blank in their Form 1040 tax package to order the other forms they need.

Identifying information. The Greens use the pre-addressed label that came with their tax forms to show their names, address, and social security numbers. Because they moved during the year, they correct the label to show their change of address.

Both George and Josephine are retired. They enter *Retired* in the space provided for their occupations.

Presidential Election Campaign Fund. Both George and Josephine want $1 of their taxes to go to this fund. They check both *Yes* boxes. Checking *Yes* will not increase their tax or reduce their refund.

Revenue sharing residence questions. The Greens complete the revenue sharing residence questions.

Personal Information (lines 1-7)

Filing status (lines 1-5). George and Josephine decide to file a joint return. They check line 2, *Married filing joint return.*

Exemptions (lines 6-7). The Greens show the exemptions for George on line 6a and for Josephine on line 6b. Because both George and Josephine are over age 65, they also check the boxes on lines 6a and 6b marked *65 or over.* They then enter the number of boxes checked, 4, in the box to the right of lines 6a and 6b. George and Josephine have no dependents, so they also enter 4 in the box to the right of line 7 to show the total number of exemptions they claim.

Income (lines 8-31)

Interest income (line 9 and Part I of Schedule B). The Greens add their interest income shown on the Forms 1099-INT or similar statements they received, and enter the total, $1,141.77, on line 9, Form 1040. Because their total interest is more than $400, the Greens must complete Part I of Schedule B. They list the payers and the amounts on line 1, Part I of Schedule B, and show the total on line 2, Part I of Schedule B.

Dividends (line 10 and Part II of Schedule B). During the time Josephine was working, she participated in a stock purchase plan that her employer had set up. She received $425 in ordinary dividends from the company. This is the only dividend income George and Josephine received during 1980 so they enter $425 on line 10a. Because the stock is held only in Josephine's name, they enter $100 as their dividend exclusion on line 10b. The balance, $325, is entered on line 10c.

Because the total amount of dividends received is more than $400, the Greens must complete Part II of Schedule B. They list the payer and the amount on line 3, Schedule B, and put a *(W)* next to the payer to show that the dividend was received by Josephine. The total dividends received, $425, is entered on line 4, Schedule B. Because the dividends Josephine received did not include capital gain distributions or nontaxable distributions, they skip lines 5 through 7 and enter $425 on line 8, Schedule B.

Foreign accounts and foreign trusts (Part III of Schedule B). Neither George nor Josephine had a foreign account or were a grantor of, or transferor to, a foreign trust. They check the *No* boxes for questions A and B in Part III of Schedule B.

Capital gains and losses (line 14 and Schedule D). On line 14, George and Josephine show their income from the sale or exchange of capital assets. The income is figured on Schedule D. Part I of Schedule D is used to report short-term capital gains or losses on assets held one year or less. The Greens do not have any short-term gains or losses for 1980.

Part II of Schedule D is used to report long-term capital gains or losses on assets held more than one year. George and Josephine list in this part a $750 gain on the sale of ten shares of stock.

Sale of home (Form 2119). George and Josephine sold their old home on January 15, 1980. Because their children were grown, they did not feel they

needed a house any more. The Greens are now renting an apartment.

The Greens bought their old home on September 13, 1952, for $25,500. Throughout the years, they added improvements to the home. These improvements cost $7,667. In December 1979 they paid $250 to have several rooms in the house painted. They sold their home for $75,900 and paid $2,400 commissions to the realty company.

Mr. and Mrs. Green want to exclude gain on the sale from their income. Because they were over age 55 before the date of the sale, had owned and used the property sold as their principal home for at least 3 years out of the 5-year period ending on the date of sale, and have never excluded gain on the sale of a home after July 26, 1978, they can exclude up to $100,000.

The Greens figure their gain on the sale as follows:

1) Selling price of home	$75,900
2) Minus: Selling expense (commission)	2,400
3) Amount realized	$73,500
4) Minus: Basis of home ($25,500 cost plus $7,667 improvements)	33,167
5) Gain on sale	$40,333

Because the Greens gain on the sale is less than $100,000, they do not include any of the gain in their income. But they fill out Form 2119 and attach it to their return to report the sale.

Fully taxable pensions and annuities (line 17). George retired on August 26, 1977. He receives $800 a month from his pension plan. Since he would recover his pension cost during the first 36 months, George reported his pension by using the Three-Year Rule. By the middle of 1979, George had completely recovered his cost so his pension is fully taxable in 1980. He enters $9,600 ($800 × 12) on line 17, Form 1040. He does not fill in Schedule E.

Pension, rent, royalty, and partnership income (line 18 and Schedule E). Josephine retired on September 30, 1978, with a monthly pension of $660. Her contribution to the plan (her pension cost) was $17,942. During the first 36 months of retirement, she will receive $23,760, which is more than her total cost. Therefore, Josephine must exclude from her income all payments she receives until she recovers her cost. In 1978 Josephine received $1,980 ($660 × 3). In 1979 she received $7,920 ($660 × 12). In 1980 she received $7,920. These amounts were tax-free. Even though her pension is completely nontaxable in 1980, Josephine reports the amount she received and the amount excludable in Part I of Schedule E.

In 1981 Josephine will receive $7,920. Of this amount, $122 ($17,942 pension cost minus $17,820 received in earlier years) will be the excludable part and the balance, $7,798, will be the taxable part. In 1982 and all later years, the entire amount Josephine receives will be taxable.

George and Josephine have no other income to be reported on Schedule E. They enter zero on line 18, Schedule E, and on line 18, Form 1040.

Total income (line 22). George and Josephine add lines 9, 10c, 14, and 17 to find their total income, $11,366.77, and enter that amount on line 22. The Greens do not have any adjustments to income, so they enter zero on line 30. They then enter $11,366.77 on line 31. This is their adjusted gross income.

Tax Computation (lines 32–37)

George and Josephine cannot itemize their deductions because their total itemized deductions are less than the $3,400 zero bracket amount allowed for their filing status. Now they are ready to figure their tax.

The Greens enter their adjusted gross income, $11,366.77 (from line 31) on line 32. Because they do not itemize their deductions, they enter zero on line 33 and $11,366.77 on line 34. This is their tax table income.

George and Josephine must use the tax tables to find their tax, because their tax table income is less than $40,000 and they claim less than 10 exemptions. The zero bracket amount and the allowance for personal exemptions are included in the tax tables. Therefore, the Greens do not take a separate deduction for them. George and Josephine use Tax Table B, *Married Filing Joint Return (Filing Status Box 2) and Qualifying Widow(er)s (Filing Status Box 5).* They read down the income column until they find their tax table income, $11,366.77. They then read across to the column headed 4—the number of exemptions they claim on line 7, Form 1040. The amount shown, $594, is their tax. George and Josephine enter this amount on line 35 and check the box marked *Tax Tables.* The Greens do not owe any additional taxes. They enter $594 on line 37.

Credits (lines 38–47)

Credit for the Elderly (line 39 and Schedules R & RP). Because George and Josephine both are 65 or older, they must figure their credit for the elderly on Schedule R. They check Box C, *Married filing joint return, both 65 or over,* on the Filing Status and Age line. They then enter $3,750 on line 1. This is their initial amount of income used to figure their credit. On line 2a, the Greens must enter the total amount of social security and other nontaxable pensions and annuities they receive. Josephine receives $185 a month from social security. Her pension is not included on line 2a, since it is a return of her pension cost.

George does not receive any nontaxable pensions or annuities. The Greens enter $2,220 ($185 × 12) on line 2a.

On line 2b, the Greens enter $11,366.77, the amount from line 32, Form 1040. Because they checked Box C, they enter $10,000 on line 2c. They subtract line 2c from line 2b and enter $1,366.77 on line 2d. On line 2e, they enter $683.39 ($1,366.77 ÷ 2). They then enter the total of lines 2a and 2e, $2,903.39, on line 3. They subtract this amount from the amount on line 1, and enter the balance, $846.61, on line 4. The Greens then enter 15% of line 4, $126.99, on line 5. Since this amount is less than the tax shown on line 37, Form 1040, the Greens enter $126.99 on line 7. This is their Credit for the Elderly. The Greens also enter $126.99 on line 39, Form 1040.

The Greens do not claim any other credits, and they enter $126.99 on line 46, Form 1040. They then subtract this amount from the tax shown on line 37 and enter the balance, $467.01, on line 47. They also enter $467.01 on line 54, because they do not owe any of the taxes listed on lines 48 through 52 and have not received advance earned income credit payments (line 53).

Payments (lines 55–62)

In January 1980 George and Josephine determined that they were required to make estimated tax payments because George's pension would be fully taxable in 1980. Using the estimated tax worksheet on Form 1040-ES, they figured their estimated tax for 1980 to be $500. They decided to pay their estimated tax in four equal installments and paid $125 on April 15, 1980, June 16, 1980, September 15, 1980, and January 16, 1981. The Greens did not have any part of their 1979 refund credited to estimated tax for 1980, so they enter $500 on line 56, Form 1040. Because this is the only payment the Greens have, they also enter $500 on line 62, Form 1040.

Next year the Greens again will have to pay estimated tax, because both George's and Josephine's pension will be fully taxable. Instead of making estimated tax payments, they may request the payers of their pensions to withhold income tax from the pension payments. The amount withheld must be at least $5 a month and the net pension payment received may not be less than $10. Either George or Josephine (or both) may request withholding by filling out Form W-4P and submitting it to the payer of the pension.

Refund or Balance Due (lines 63–66)

Because line 62 ($500) is more than line 54 ($467.01), George and Josephine have overpaid their taxes. The Greens enter the amount of their overpayment, $32.99, on line 63. They do not wish to have this amount credited to their 1981 estimated tax, so they enter $32.99 on line 64. This is the amount of their refund.

The Greens check their return to make certain they have completed all the items and schedules called for. They both sign and date the return. They mail the return to the Internal Revenue Service Center for their area and keep a copy of their return for their records.

Form **1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return** **1980**

For Privacy Act Notice, see Instructions | For the year January 1–December 31, 1980, or other tax year beginning 1980, ending 19

Use IRS label. Otherwise, please print or type.

Yo GG-333-33-3333 555-55-5555 DO 94 2
Pr GEORGE H. & JOSEPHINE P. GREEN
~~7942 ROBIN ROAD~~ 5910 MEL WAY APT. # 13
Ci ~~LAKEVILLE, CA 99999~~ HOMETOWN, CA 99999

Last name | Your social security number | Spouse's social security no.

Your occupation ▶ RETIRED
Spouse's occupation ▶ RETIRED

Presidential Election Campaign Fund

Do you want $1 to go to this fund? ✓ Yes ___ No
If joint return, does your spouse want $1 to go to this fund? ✓ Yes ___ No

Note: *Checking "Yes" will not increase your tax or reduce your refund.*

Requested by Census Bureau for Revenue Sharing

A Where do you live (actual location of residence)? (See page 2 of Instructions.) State: CA City, village, borough, etc.: HOMETOWN
B Do you live within the legal limits of a city, village, etc.? ☐ Yes ☑ No
C In what county do you live? HOMEVIEW
D In what township do you live?

Filing Status Check only one box.

1 ___ Single
2 ✓ Married filing joint return (even if only one had income)
3 ___ Married filing separate return. Enter spouse's social security no. above and full name here ▶
4 ___ Head of household. (See page 6 of Instructions.) If qualifying person is your unmarried child, enter child's name ▶
5 ___ Qualifying widow(er) with dependent child (Year spouse died ▶ 19). (See page 6 of Instructions.)

For IRS use only

Exemptions Always check the box labeled Yourself. Check other boxes if they apply.

6a ✓ Yourself ✓ 65 or over ___ Blind
b ✓ Spouse ✓ 65 or over ___ Blind
Enter number of boxes checked on 6a and b ▶ 4
c First names of your dependent children who lived with you ▶
Enter number of children listed on 6c ▶

d Other dependents:

(1) Name	(2) Relationship	(3) Number of months lived in your home	(4) Did dependent have income of $1,000 or more?	(5) Did you provide more than one-half of dependent's support?

Enter number of other dependents ▶
Add numbers entered in boxes above ▶ 4

7 Total number of exemptions claimed

Income Please attach Copy B of your Forms W-2 here. If you do not have a W-2, see page 5 of Instructions.

8	Wages, salaries, tips, etc.	8	
9	Interest income (attach Schedule B if over $400)	9	1,141 77
10a	Dividends (attach Schedule B if over $400) 425 00 , 10b Exclusion 100 00		
c	Subtract line 10b from line 10a	10c	325 00
11	Refunds of State and local income taxes (do not enter an amount unless you deducted those taxes in an earlier year—see page 9 of Instructions)	11	
12	Alimony received	12	
13	Business income or (loss) (attach Schedule C)	13	
14	Capital gain or (loss) (attach Schedule D)	14	300 00
15	40% of capital gain distributions not reported on line 14 (See page 9 of Instructions)	15	
16	Supplemental gains or (losses) (attach Form 4797)	16	
17	Fully taxable pensions and annuities not reported on line 18	17	9,600 00
18	Pensions, annuities, rents, royalties, partnerships, etc. (attach Schedule E)	18	-0-
19	Farm income or (loss) (attach Schedule F)	19	
20a	Unemployment compensation (insurance). Total received		
b	Taxable amount, if any, from worksheet on page 10 of Instructions	20b	
21	Other income (state nature and source—see page 10 of Instructions) ▶	21	
22	**Total income.** Add amounts in column for lines 8 through 21 ▶	22	11,366 77

Please attach check or money order here.

Adjustments to Income (See Instructions on page 10)

23	Moving expense (attach Form 3903 or 3903F)	23		
24	Employee business expenses (attach Form 2106)	24		
25	Payments to an IRA (enter code from page 10 .....)	25		
26	Payments to a Keogh (H.R. 10) retirement plan	26		
27	Interest penalty on early withdrawal of savings	27		
28	Alimony paid	28		
29	Disability income exclusion (attach Form 2440)	29		
30	**Total adjustments.** Add lines 23 through 29 ▶		30	-0-

Adjusted Gross Income

31	**Adjusted gross income.** Subtract line 30 from line 22. If this line is less than $10,000, see "Earned Income Credit" (line 57) on pages 13 and 14 of Instructions. If you want IRS to figure your tax, see page 3 of Instructions ▶	31	11,366 77

Form 1040 (1980)

Tax Computation (See Instructions on page 11)

32	Amount from line 31 (*adjusted gross income*)			32	11,366 77
33	If you do not itemize deductions, enter zero. If you itemize, complete Schedule A (Form 1040) and enter the amount from Schedule A, line 41			33	-0-
	Caution: If you have unearned income and can be claimed as a dependent on your parent's return, check here ▶ ☐ and see page 11 of the Instructions. Also see page 11 of the Instructions if: • *You are married filing a separate return and your spouse itemizes deductions, OR* • *You file Form 4563, OR* • *You are a dual-status alien.*				
34	Subtract line 33 from line 32. Use the amount on line 34 to find your tax from the Tax Tables, or to figure your tax on Schedule TC, Part I. Use Schedule TC, Part I, and the Tax Rate Schedules ONLY if: • *Line 34 is more than $20,000 ($40,000 if you checked Filing Status Box 2 or 5), OR* • *You have more exemptions than are shown in the Tax Table for your filing status, OR* • *You use Schedule G or Form 4726 to figure your tax.* Otherwise, you MUST use the Tax Tables to find your tax.			34	11,366 77
35	Tax. Enter tax here and check if from ☐ Tax Tables or ☐ Schedule TC			35	594 00
36	Additional taxes. (See page 12 of Instructions.) Enter here and check if from ☐ Form 4970, ☐ Form 4972, ☐ Form 5544, ☐ Form 5405, or ☐ Section 72(m)(5) penalty tax			36	
37	**Total.** Add lines 35 and 36 ▶			37	594 00

Credits (See Instructions on page 12)

38	Credit for contributions to candidates for public office	38			
39	Credit for the elderly (*attach Schedules R&RP*)	39	126	99	
40	Credit for child and dependent care expenses (*attach Form 2441*)	40			
41	Investment credit (*attach Form 3468*)	41			
42	Foreign tax credit (*attach Form 1116*)	42			
43	Work incentive (WIN) credit (*attach Form 4874*)	43			
44	Jobs credit (*attach Form 5884*)	44			
45	Residential energy credits (*attach Form 5695*)	45			
46	**Total credits.** Add lines 38 through 45			46	126 99
47	**Balance.** Subtract line 46 from line 37 and enter difference (but not less than zero) ▶			47	467 01

Other Taxes (Including Advance EIC Payments)

48	Self-employment tax (*attach Schedule SE*)			48	
49a	Minimum tax. Attach Form 4625 and check here ▶ ☐			49a	
49b	Alternative minimum tax. Attach Form 6251 and check here ▶ ☐			49b	
50	Tax from recomputing prior-year investment credit (*attach Form 4255*)			50	
51a	Social security (FICA) tax on tip income not reported to employer (*attach Form 4137*)			51a	
51b	Uncollected employee FICA and RRTA tax on tips (*from Form W-2*)			51b	
52	Tax on an IRA (*attach Form 5329*)			52	
53	Advance earned income credit (EIC) payments received (from Form W-2)			53	
54	**Balance.** Add lines 47 through 53 ▶			54	467 01

Payments Attach Forms W-2, W-2G, and W-2P to front.

55	Total Federal income tax withheld	55			
56	1980 estimated tax payments and amount applied from 1979 return	56	500	00	
57	Earned income credit. If line 32 is under $10,000, see pages 13 and 14 of Instructions	57			
58	Amount paid with Form 4868	58			
59	Excess FICA and RRTA tax withheld (two or more employers)	59			
60	Credit for Federal tax on special fuels and oils (*attach Form 4136 or 4136-T*)	60			
61	Regulated Investment Company credit (*attach Form 2439*)	61			
62	**Total.** Add lines 55 through 61 ▶			62	500 00

Refund or Balance Due

63	If line 62 is larger than line 54, enter amount **OVERPAID** ▶			63	32 99
64	Amount of line 63 to be **REFUNDED TO YOU** ▶			64	32 99
65	Amount of line 63 to be applied to your 1981 estimated tax ▶	65			
66	If line 54 is larger than line 62, enter **BALANCE DUE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number on check or money order ▶ (Check ▶ ☐ if Form 2210 (2210F) is attached. See page 15 of Instructions.) ▶ $			66	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ George A. Green 3-2-81
Your signature Date

▶ Josephine P. Green
Spouse's signature (if filing jointly, BOTH must sign even if only one had income)

Paid Preparer's Use Only

Preparer's signature and date ▶ | Check if self-employed ▶ ☐ | Preparer's social security no.

Firm's name (or yours, if self-employed) and address ▶ | E.I. No. ▶ | ZIP code ▶

Schedule B—Interest and Dividend Income

Name(s) as shown on Form 1040 (Do not enter name and social security number if shown on other side)

GEORGE H. AND JOSEPHINE P. GREEN

Your social security number: 333 33 3333

Part I Interest Income

1 If you received more than $400 in interest, complete Part I and Part III. Please see page 8 of the instructions to find out what interest to report. Then answer the questions in Part III, below. If you received interest as a nominee for another, or you received or paid accrued interest on securities transferred between interest payment dates, please see page 19 of the instructions.

Name of payer	Amount
LAKEVILLE FEDERAL SAVINGS AND LOAN	870 00
HOME BANK	271 77

SCHEDULE D (Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(Examples of property to be reported on this Schedule are gains and losses on stocks, bonds, and similar investments, and gains (but not losses) on personal assets such as a home or jewelry.)

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).

1980
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Name(s) as shown on Form 1040: GEORGE H. AND JOSEPHINE P. GREEN

Your social security number: 333 33 3333

Part I Short-term Capital Gains and Losses—Assets Held One Year or Less

D

a. Kind of property and description (Example, 100 shares 7% preferred of "Z" Co.)	b. Date acquired (Mo., day, yr.)	c. Date sold (Mo., day, yr.)	d. Gross sales price less expense of sale	e. Cost or other basis, as adjusted (see instructions page 21)	f. LOSS if column (e) is more than (d) subtract (d) from (e)	g. GAIN if column (d) is more than (e) subtract (e) from (d)
1						

2 Gain from sale or exchange of a principal residence held one year or less, from Form 2119, lines 7 or 11	2		
3 Enter your share of net short-term gain or (loss) from partnerships and fiduciaries	3		
4 Add lines 1, 2 and 3 in column f and column g	4		
5 Combine line 4, column f and line 4, column g and enter the net gain or (loss)		5	
6 Short-term capital loss carryover from years beginning after 1969		6	( )
7 Net short-term gain or (loss), combine lines 5 and 6		7	

Part II Long-term Capital Gains and Losses—Assets Held More Than One Year

8 10 SHARES - C COMPANY STOCK	10-15-79	12-8-80	2,500.00	1,750.00		750	00

9 Gain from sale or exchange of a principal residence held more than one year, from Form 2119, lines 7, 11, or 18	9		
10 Enter your share of net long-term gain or (loss) from partnerships and fiduciaries	10		
11 Add lines 8, 9 and 10 in column f and column g	11		750 00
12 Combine line 11, column f and line 11, column g and enter the net gain or (loss)		12	750 00
13 Capital gain distributions		13	
14 Enter gain, if applicable, from Form 4797, line 5(a)(1)		14	
15 Enter your share of net long-term gain from small business corporations (Subchapter S)		15	
16 Combine lines 12 through 15		16	750 00
17 Long-term capital loss carryover from years beginning after 1969		17	( )
18 Net long-term gain or (loss), combine lines 16 and 17		18	750 00

Note: *If you have capital loss carryovers from years beginning before 1970, do not complete rest of form. See Form 4798 instead. Otherwise, complete this form on reverse.*

Part III Summary of Parts I and II

19 Combine lines 7 and 18, and enter the net gain or (loss) here	19	750	00
20 If line 19 shows a gain—			
a Enter 60% of line 18 or 60% of line 19, whichever is smaller. Enter zero if there is a loss or no entry on line 18	20a	450	00
If the amount you enter on this line is other than zero, you may be liable for the alternative minimum tax. See Form 6251.			
b Subtract line 20a from line 19. Enter here and on Form 1040, line 14	20b	300	00
21 If line 19 shows a loss—			
a Enter one of the following amounts: *(i)* If line 7 is zero or a net gain, enter 50% of line 19, *(ii)* If line 18 is zero or a net gain, enter line 19; or, *(iii)* If line 7 and line 18 are net losses, enter amount on line 7 added to 50% of the amount on line 18	21a		
b Enter here and enter as a loss on Form 1040, line 14, the smallest of: *(i)* The amount on line 21a, *(ii)* $3,000 ($1,500 if married and filing a separate return); or, *(iii)* Taxable income, as adjusted	21b		
Note: *If the loss on line 21a is more than the loss shown on line 21b, complete Part IV to determine post-1969 capital loss carryover from 1980 to 1981.*			

Part IV Computation of Post-1969 Capital Loss Carryovers from 1980 to 1981

(Complete this part if the loss on line 21a is more than the loss shown on line 21b)

Section A.—Short-term Capital Loss Carryover

22 Enter loss shown on line 7; if none, enter zero and skip lines 23 through 27—then go to line 28	22		
23 Enter gain shown on line 18. If that line is blank or shows a loss, enter zero	23		
24 Reduce any loss on line 22 to the extent of any gain on line 23	24		
25 Enter amount shown on line 21b	25		
26 Enter smaller of line 24 or 25	26		
27 Subtract line 26 from line 24	27		
Note: *The amount on line 27 is the part of your short-term capital loss carryover from 1980 to 1981 that is from years beginning after 1969.*			

Section B.—Long-term Capital Loss Carryover

28 Subtract line 26 from line 25. **(Note:** *if you skipped lines 23 through 27, enter amount from line 21b).*	28		
29 Enter loss from line 18; if none, enter zero and skip lines 30 through 33	29		
30 Enter gain shown on line 7. If that line is blank or shows a loss, enter zero	30		
31 Reduce any loss on line 29 to the extent of any gain on line 30	31		
32 Multiply amount on line 28 by 2	32		
33 Subtract line 32 from line 31	33		
Note: *The amount on line 33 is the part of your long term capital loss carryover from 1980 to 1981 that is from years beginning after 1969.*			

SCHEDULE E (Form 1040)
Department of the Treasury
Internal Revenue Service

Supplemental Income Schedule

(From pensions and annuities, rents and royalties, partnerships, estates and trusts, etc.)
▶ Attach to Form 1040. ▶ See Instructions for Schedule E (Form 1040).

1980
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Name(s) as shown on Form 1040: GEORGE H. AND JOSEPHINE P. GREEN

Your social security number: 333 33 3333

Part I **Pension and Annuity Income.** If fully taxable, do not complete this part. Enter amount on Form 1040, line 17. For one pension or annuity not fully taxable, complete this part. If you have more than one pension or annuity that is not fully taxable, attach a separate sheet listing each one with the appropriate data and enter combined total of taxable parts on line 4.

1a Did you and your employer contribute to the pension or annuity? ☑ Yes ☐ No

b If "Yes," do you expect to get back your contribution within 3 years from the date you receive the first payment? ☑ Yes ☐ No

c If "Yes," show: Your contribution ▶ $ 17,942, d Contribution received in prior years ▶ | 1d | 9,900

2 Amount received this year	2	7,920
3 Amount on line 2 that is not taxable	3	7,920
4 Taxable part (subtract line 3 from line 2). Enter here and include in line 18 below	4	-0-

Part II **Rent and Royalty Income or Loss.** If you need more space, attach a separate sheet.

5a Are any of the expenses listed below for a vacation home or similar dwelling rented to others (see instructions)? ☐ Yes ☐ No

b If "Yes," did you or a member of your family occupy the vacation home or similar dwelling for more than 14 days during the tax year? ☐ Yes ☐ No

6a Did you elect to claim amortization (under section 191) or depreciation (under section 167(o)) for a rehabilitated certified historic structure (see Instructions)? ☐ Yes ☐ No

b Amortizable basis (see Instructions) ▶

	(a) Property code (describe in Part V)	(b) Total amount of rents	(c) Total amount of royalties	(d) Depreciation (explain in Part VI) or depletion (attach computation)	(e) Other expenses (explain in Part VII)	(f) Net loss	(g) Net income
Property A							
Property B							
Property C							
7 Amounts from Form 4835							
8 Totals						( )	

9 Total rent and royalty income or (loss). Combine amounts in columns (f) and (g), line 8. Enter here and include in line 18 below | 9 |

Part III **Income or Losses from—**

	(a) Name	(b) Employer identification number	(c) Net loss	(d) Net income
Partnerships				
	10 Add amounts in columns (c) and (d) and enter here	10	( )	
	11 Combine amounts in columns (c) and (d), line 10, and enter net income or (loss)	11		
	12 Additional first-year depreciation (see instructions for limitations)	12	( )	
	13 Total partnership income or (loss). Combine lines 11 and 12. Enter here and include in line 18 below	13		
Estates or Trusts				
	14 Add amounts in columns (c) and (d) and enter here	14	( )	
	15 Total estate or trust income or (loss). Combine amounts in columns (c) and (d), line 14. Enter here and include in line 18 below	15		
Small Business Corporations				
	16 Add amounts in columns (c) and (d) and enter here	16	( )	
	17 Total small business corporation income or (loss). Combine amounts in columns (c) and (d), line 16. Enter here and include in line 18 below	17		

Part IV

18 **TOTAL** income or (loss). Combine lines 4, 9, 13, 15, and 17. Enter here and on Form 1040, line 18 ▶ | 18 | -0-

19 Farmers and fishermen: Enter your share of gross farming and fishing income applicable to Parts II and III | 19 |

E

Schedules R & RP—Credit for the Elderly

(Form 1040)

Department of the Treasury
Internal Revenue Service

▶ See Instructions for Schedules R and RP.
▶ Attach to Form 1040.

1980

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Name(s) as shown on Form 1040: GEORGE H. AND JOSEPHINE P. GREEN

Your social security number: 333 33 3333

Please Note: *IRS will figure your Credit for the Elderly and compute your tax. Please see "IRS Will Figure Your Tax and Some of Your Credits" on page 3 of the Form 1040 instructions and complete the applicable lines on Form 1040 and Schedule R or RP.*

Should You Use Schedule R or RP?

If you are:	And were:	Use Schedule:
Single	▶ 65 or over	R
	▶ under 65 and had income from a public retirement system	RP
Married, filing separate return [1]	▶ 65 or over (unless joining in the election to use Schedule RP with your spouse who is under 65 and had income from a public retirement system)	R
	▶ under 65 and had income from a public retirement system (unless your spouse is 65 or over and does not join in the election to use Schedule RP)	RP
Married, filing joint return	▶ both 65 or over	R
	▶ one 65 or over, and one under 65 with no income or income other than from a public retirement system	R
	▶ both under 65 and one or both had income from a public retirement system	RP
	▶ one 65 or over, and one under 65 with income from a public retirement system	R or RP [2]

[1] You can take the credit on a separate return ONLY if you and your spouse lived apart for the whole year. See "Purpose" in Schedules R&RP instructions for limitation.

[2] Figure your credit on both schedules to see which gives you more credit.

Schedule R — Credit for the Elderly—For People 65 or Over

If you received nontaxable pensions (social security, etc.) of $3,750 or more or your adjusted income (Form 1040, line 32) was $17,500 or more, you cannot take the credit for the elderly. Do not file this schedule.

Filing Status and Age (check only one box)

- A ☐ Single, 65 or over
- B ☐ Married filing joint return, only one spouse 65 or over
- C ☑ Married filing joint return, both 65 or over
- D ☐ Married filing separate return, 65 or over, and did not live with spouse at any time in 1980

R

1 Enter: $2,500 if you checked box A or B; $3,750 if you checked box C; $1,875 if you checked box D					1	3,750 00
2 a Enter amounts you received as pensions or annuities under the Social Security Act or under the Railroad Retirement Acts (but not supplemental annuities), and certain other exclusions from gross income (see instructions). If none, enter zero			2a	2,220 00		
b Enter amount from Form 1040, line 32	2b	11,366 77				
c Enter: $7,500 if you checked box A; $10,000 if you checked box B or C; $5,000 if you checked box D	2c	10,000 00				
d Subtract line 2c from 2b. If line 2c is more than line 2b, enter zero	2d	1,366 77				
e Enter one-half (½) of line 2d			2e	683 39		
3 Add lines 2a and 2e. (If line 3 is the same or more than line 1, you cannot take the credit; do not file this schedule. If line 3 is less than line 1, go on.)					3	2,903 39
4 Subtract line 3 from line 1					4	846 61
5 Multiply line 4 by 15% (.15)					5	126 99
6 Enter amount of tax from Form 1040, line 37. (If this amount is zero, you cannot take the credit; do not file this schedule.)					6	594 00
7 Enter the amount from line 5 or line 6, above, whichever is less. This is your Credit for the Elderly. Enter the same amount on Form 1040, line 39 ▶					7	126 99

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale or Exchange of Principal Residence

▶ See instructions on back.
▶ Attach to Form 1040.

1980
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Note: *Do not include expenses you are deducting as moving expenses on Form 3903.*

Name(s) as shown on Form 1040: GEORGE H. AND JOSEPHINE P. GREEN

Your social security number: 333 33 3333

		Yes	No
1 (a)	Date former residence sold ▶		
(b)	Have you ever postponed any gain on the sale or exchange of a principal residence?		✓
(c)	Have you ever claimed a credit for purchase or construction of a new principal residence? (If "Yes," see Form 5405.)		✓
(d)	If you were on active duty in the U.S. Armed Forces or outside of the U.S. after the date of sale of former residence, enter dates. From ____ to N/A		
2 (a)	Date new residence was bought ▶ N/A		
(b)	If new residence was constructed by you, date construction began ▶ N/A		
(c)	Date you occupied new residence ▶ N/A		
(d)	If you answered "Yes," to 1(c), did anyone live in your new replacement residence before you did?		
(e)	Were both the old and new properties used as your principal residence?	N/A	
(f)	Were any rooms in either residence rented out or used for business at any time? (If "Yes," see note in line 7 and attach computation.)		✓

Part I Computation of Gain and Adjusted Sales Price

3	Selling price of residence. (Do not include selling price of personal property items.)			3	75,900 00
4	Commissions and other expenses of sale			4	2,400 00
5	Amount realized (subtract line 4 from line 3)			5	73,500 00
6	Basis of residence sold	6	33,167 00		
7	Gain on sale (subtract line 6 from line 5). (If line 6 is more than line 5, enter zero and do not complete the rest of form.) If you bought another principal residence during the allowed replacement period or you elect the one time exclusion in Part III, continue with this form. Otherwise, enter the gain on Schedule D (Form 1040), line 2 or 9. If you intend to replace the residence within the allowed replacement period see instruction B.	7	40,333 00		
	Note: *Do not include in line 7 the amount attributable to rented rooms or other business purposes; instead, report separately on Form 4797.*				
8	Fixing-up expenses			8	250 00
9	Adjusted sales price (subtract line 8 from line 5)			9	73,250.00

Part II Computation of Gain to be Postponed and Adjusted Basis of New Residence

10	Cost of new residence	10	-0-
11	Gain taxable this year. (Subtract line 10 from line 9. Do not enter more than line 7.) If line 10 is more than line 9, enter zero. Enter any taxable gain on Schedule D (Form 1040), line 2 or 9. If you were 55 or over on the date of sale, see Part III	11	40,333 00
12	Gain to be postponed (subtract line 11 from line 7)	12	
13	Adjusted basis of new residence (subtract line 12 from line 10)	13	

Part III Computation of Exclusion, Gain to be Reported, and Adjusted Basis of New Residence

		Yes	No
14 (a)	Were you 55 or over on date of sale?	✓	
(b)	Was your spouse 55 or over on date of sale? (If you answered "No" to 14(a) and 14(b), do not complete the rest of form.)	✓	
(c)	If you answered "Yes" to 14(a) or 14(b) did you own and use the property sold as your principal residence for a total of at least 3 years (except for short temporary absences) of the 5-year period before the sale? (If you are 65 or over, see instruction C.)	✓	
(d)	If you answered "Yes" to 14(c), do you elect to take the once in a lifetime exclusion of the gain on the sale? (If "Yes," check yes box and complete the balance of Part III. If "No," return to Part II, line 12 above.)	✓	
(e)	At time of sale, was the residence owned by: ☐ you, ☐ your spouse, ☐ both of you?		
(f)	Social security number of spouse, at time of sale, if different from number on Form 1040 ▶ ____ (Enter "none" if you were not married at time of sale.)		

15	Exclusion: Enter the smaller of line 7 or $100,000 ($50,000, if married filing separately)	15	40,333 00
16	Part of gain included (subtract line 15 from line 7)	16	-0-
17	Cost of new residence. If you did not buy a new principal residence, enter "None." Then enter the gain from line 16 on Schedule D (Form 1040), line 9, and do not complete the rest of Form 2119	17	NONE
18	Gain taxable this year. (Subtract the sum of lines 15 and 17 from line 9. The result cannot be more than line 16.) If line 17 plus line 15 is more than line 9, enter zero. Enter any taxable gain on Schedule D (Form 1040), line 9	18	
19	Gain to be postponed (subtract line 18 from line 16)	19	
20	Adjusted basis of new residence (subtract line 19 from line 17)	20	

Form **2119** (1980)

List of Publications

References to the following publications are included in this publication for your convenience should you find that you need more information on specific subjects. You may order these publications from the IRS Forms Distribution Center for your state. Addresses for the Forms Distribution Centers are shown near the end of your Form 1040 or Form 1040A Instructions. Or, you may call the Forms/Tax Information telephone number, listed in your phone book under *United States Government, Internal Revenue Service.*

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17	Your Federal Income Tax
463	Travel, Entertainment, and Gift Expenses
501	Exemptions
502	Medical and Dental Expenses
503	Child and Disabled Dependent Care
504	Tax Information for Divorced or Separated Individuals
505	Tax Withholding and Estimated Tax
506	Income Averaging
514	Foreign Tax Credit for U.S. Citizens and Resident Aliens
519	U.S. Tax Guide for Aliens
521	Moving Expenses
522	Disability Payments
523	Tax Information on Selling Your Home
525	Taxable and Nontaxable Income
526	Charitable Contributions
527	Rental Property
529	Miscellaneous Deductions
530	Tax Information for Homeowners
533	Self-Employment Tax
534	Depreciation
535	Business Expenses and Operating Losses
544	Sales and Other Dispositions of Assets
545	Interest Expense
547	Tax Information on Disasters, Casualties, and Thefts
549	Condemnations of Private Property for Public Use
550	Investment Income and Expenses
551	Basis of Assets
559	Tax Information for Survivors, Executors, and Administrators
560	Tax Information on Self-Employed Retirement Plans
570	Tax Guide for U.S. Citizens Employed in U.S. Possessions
572	Investment Credit
575	Pension and Annuity Income
585	Voluntary Tax Methods to Help Finance Political Campaigns
588	Condominiums, Cooperative Apartments, and Homeowners Associations
590	Tax Information on Individual Retirement Arrangements
596	Earned Income Credit
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